Supreme Court, U.S.
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No. _____

IN THE
Supreme Court of the United States

OLE K. NILSSEN AND GEO FOUNDATION, LTD.,
Petitioners,

v.

OSRAM SYLVANIA, INC. AND
OSRAM SYLVANIA PRODUCTS, INC.,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the Federal Circuit's interpretation of the patent-law doctrine of inequitable conduct has departed substantially from this Court's original understanding of the doctrine, improperly shifting the focus of the typical patent-infringement case away from the merits of the claim to an exhaustive search for technical omissions or misstatements in the prosecution history.

2. Whether an omission or misstatement in the prosecution history of a patent can be considered "material" for purposes of the inequitable-conduct doctrine even though it had no potential or actual effect on the decision-making about whether the patent would issue.

3. Whether deceptive intent supporting a finding of inequitable conduct can properly be inferred, absent any rational motive to deceive or other evidence of intent, from the fact that the same inventor committed unrelated errors in prosecuting other patents, where the evidence of intent with regard to those other errors is no stronger.

4. Whether patents of immense commercial value may properly be denied enforcement under the doctrine of inequitable conduct without a weighing of the equities that takes account of the seriousness of the errors made during patent prosecution, the clarity of the evidence of deceptive intent, and the magnitude of the penalty being imposed relative to the value of the patents being lost.

PARTIES TO THE PROCEEDING

Pursuant to Rule 14.1(b), the following list identifies all of the parties appearing here and before the United States Court of Appeals for the Federal Circuit.

Petitioners here and the plaintiffs and appellants below are Ole K. Nilssen and Geo Foundation, Ltd.

Respondents here and the defendants and appellees below are Osram Sylvania, Inc., and Osram Sylvania Products, Inc. (collectively, "Osram").

CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 29.6, petitioners state as follows:

Geo Foundation, Ltd. ("Geo") has no parent company, and no publicly held corporation owns 10% or more of Geo's stock.

TABLE OF CONTENTS

QUESTIONS PRESENTED i
PARTIES TO THE PROCEEDING ii
CORPORATE DISCLOSURE STATEMENT iii
TABLE OF AUTHORITIES vii
OPINIONS BELOW 1
JURISDICTION 1
STATEMENT OF THE CASE 1
A. The Parties and the Patents at Issue 3
B. Rulings Below 5
1. Categories of Inequitable Conduct at Issue 6
a. *Motorola* Litigation 6
b. Underpaying Maintenance Fees 8
c. Cross-Referencing a 1978 Application 10
2. The "Collection" of Errors 11
3. The Weighing of the Equities 12
REASONS FOR GRANTING THE WRIT 12
I. THE COURT SHOULD GRANT REVIEW TO RESTORE RIGOROUS REQUIREMENTS OF MATERIALITY AND INTENT. 16
A. Watered-Down Notions of Materiality and Intent Have Caused a Plague of Inequitable-Conduct Cases. 16
1. Materiality 16
2. Intent 19

B. This Case Illustrates the Problems with the Federal Circuit's Watered-Down Notions of Materiality and Intent.....23

1. Materiality.....23

a. Failing to disclose litigation of no relevance to patentability.....23

b. Underpaying maintenance fees years after the patents issued.....25

c. Cross-referencing an application not relied on during prosecution.....27

2. Intent.....28

II. THE COURT SHOULD GRANT REVIEW TO DETERMINE WHETHER THE FEDERAL CIRCUIT HAS IMPROPERLY ELIMINATED ALL WEIGHING OF THE EQUITIES.....32

CONCLUSION.....38

Appendix A

Nilssen v. Osram Sylvania, Inc., 504 F.3d 1223 (Fed. Cir. 2007).....1a

Appendix B

Nilssen v. Osram Sylvania, Inc., 440 F. Supp. 2d 884 (N.D. Ill. 2006).....24a

Appendix C

Denial of Rehearing En Banc, *Nilssen v. Osram Sylvania, Inc.*, No. No. 2006-1550 (Fed. Cir. Jan. 16, 2008).....79a

Appendix D

37 C.F.R. § 1.56 (2004) 81a

TABLE OF AUTHORITIES

CASES

ABF Freight System, Inc. v. NLRB, 510 U.S. 317 (1994) 19

A.H. Emery Co. v. Marcan Products Corp., 389 F.2d 11 (2d Cir. 1968) 20

American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350 (Fed. Cir. 1984) 17

Aptix Corp. v. Quickturn Design System Inc., 269 F.3d 1369 (Fed. Cir. 2001) 26

BMW, Inc. of North America v. Gore, 517 U.S. 559 (1996) 33

Baxter International, Inc. v. McGaw, Inc., 149 F.3d 1321 (Fed. Cir. 1998) 32

Buckman Co. v. Plaintiffs' Legal Committee, 531 U.S. 341 (2001) 19

Burlington Industries Inc. v. Dayco Corp., 849 F.2d 1418 (Fed. Cir. 1988) 20

Corona Cord Tire Co. v. Dovan Chemical Corp., 276 U.S. 358 (1928) 18

Digital Control, Inc. v. Charles Machine Works, 437 F.3d 1309 (Fed. Cir. 2006) 18, 24

Dow Chemical Co. v. Exxon Corp., 139 F.3d 1470 (Fed. Cir. 1998) 37

eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006) 15

Eresch v. Braecklein, 133 F.2d 12 (10th Cir. 1943) 20

Ferring B.V. v. Barr Laboratories, Inc., 437 F.3d 1181 (Fed. Cir. 2006) 19

Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722 (2002) 12

Graham v. John Deere Co. of Kansas City, 383 U.S. 1 (1966) 12

Graver Tank & Manufacturing Co. v. Linde Air Products Co., 339 U.S. 605 (1950) 12

Hoffman-La Roche, Inc. v. Promega Corp., 323 F.3d 1354 (Fed. Cir. 2003) 19, 21, 22, 38

Kingsdown Medical Consultants, Ltd. v. Hollister Inc., 863 F.2d 867 (Fed. Cir. 1988) 20

Kothmann Enterprises, Inc. v. Trinity Industries, Inc., 455 F. Supp. 2d 608 (S.D. Tex. 2006) 7, 29

KSR International Co. v. Teleflex Inc., 127 S. Ct. 1727 (2007) 12

Monsanto Co. v. Bayer BioScience N.V., 363 F.3d 1235 (Fed. Cir. 2004) 12

Nilssen v. Osram Sylvania, Inc., No. 01-C-3585, 2007 WL 257711 (N.D. Ill. Jan. 23, 2007), *appeals pending*, Nos. 2007-1198 & 2007-1348 (Fed. Cir. 2008) 34

Novo Nordisk Pharmaceuticals, Inc. v. Bio-Technology General Corp., 424 F.3d 1347 (Fed. Cir. 2005) 21

Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co., 324 U.S. 806 (1945) ..... *passim*

Purdue Pharma L.P. v. Boehringer Ingelheim GmbH, 237 F.3d 1359 (Fed. Cir. 2001) 27, 32

Purdue Pharma L.P. v. Endo Pharmaceuticals Inc., 438 F.3d 1123 (Fed. Cir. 2006) 28

Solem v. Helm, 463 U.S. 277 (1983) 33

State Farm Mutual Automobile Insurance Co. v. Campbell, 538 U.S. 408 (2003) 36

Ulead Systems, Inc. v. Lex Computer & Management Corp., 351 F.3d 1139 (Fed. Cir. 2003) 19, 26

United States v. Bajakajian, 524 U.S. 321 (1998) 33

Vermont Yankee Nuclear Power Corp. v. NRDC, 435 U.S. 519 (1978) 19

Warner-Jenkinson Co. v. Hilton Davis Chemical Co., 520 U.S. 17 (1997) 12, 13

STATUTES AND REGULATIONS

28 U.S.C. § 1254(1) 1

35 U.S.C. § 120 27

35 U.S.C. § 285 34

37 C.F.R. § 1.28(c) (2005) 9, 26

37 C.F.R. § 1.56(a) (1988) 17

37 C.F.R. § 1.56(a) (2004) 18

37 C.F.R. § 1.56(b) (2004) 18, 24

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Duty of Disclosure, 57 FED. REG. 2021 (Jan. 17, 1992) 18

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JURISDICTION

The Court of Appeals entered judgment on October 10, 2007, and denied a timely petition for rehearing en banc on January 16, 2008. Pet. App. 79a-80a. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

In this patent-infringement case, the Federal Circuit relied on a collection of errors made during patent prosecution by a *pro se* applicant to uphold declarations of unenforceability for 15 patents potentially worth hundreds of millions of dollars. The Court of Appeals held that petitioners were properly found to have forfeited their patent rights due to misstatements or omissions during patent prosecution, even though it was clear that most of the patents would have issued regardless of the errors. The Federal Circuit's expansion of the inequitable-conduct doctrine to cover cases like this one has taken the doctrine far beyond its equitable roots. The expansion has been accomplished by watering down the required elements of materiality and intent and by effectively eliminating any balancing of the equities. As a result, the defendant in almost any patent-infringement case is now able to conjure up plausible claims of inequitable conduct,

and those claims have become a routine part of patent litigation. Moreover, a doctrine designed by this Court 63 years ago as a means to promote equity has been transformed into an instrument for producing profound injustice.

This case illustrates this well-documented problem. Respondent, rather than defending against patent-infringement claims on the merits, combed through the prosecution histories of the patents at issue to identify a long list of errors that it could label violations of the duty of candor. Indeed, respondent's trial counsel has cited this case as a roadmap showing how to build the "inequitable-conduct mosaic" from single tiles in the file history of the patent at issue and "other patents naming the same inventor," so that "multiple mistakes can mature into a legitimate claim of inequitable conduct."[1]

Unfortunately, these strategies worked, as the District Court systematically ruled for the respondent, and the Federal Circuit affirmed. The Federal Circuit did so despite its recognition that "[e]ach of the issues on which the district court found inequitable conduct generated defenses by [the inventor, Ole Nilssen] that were not per se unreasonable when considered in isolation." Pet. App. 22a. The court explained, however, that

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[1] *See* David K. S. Cornwell & Mark W. Rygiel, *How to Identify the Single Tiles of the Inequitable Conduct Mosaic*, at 6, 13, *available at* http://www.aipla.org/Content/ContentGroups/SpeakerPapers/Annual_Meeting_Speaker_Papers/200717/Cornwell-paper.pdf (last visited Apr. 11, 2008).

"inadvertence can carry an applicant only so far" and that Nilssen's "collection" of problems supported findings of inequitable conduct. *Id.* at 22a-23a. The court appeared to recognize the extremes to which it was taking the doctrine of inequitable conduct, explaining that Nilssen "thought he didn't need professional patent help [to prosecute his patents]. The result of this case, regrettably, proves that he was wrong." *Id.* at 23a. It held each of the patents unenforceable even though these technical errors had little or no relevance to patentability, even though there was no nexus between the various types of errors, and even though the remedy — rendering the patents permanently and totally unenforceable — was entirely disproportionate to the conduct, which the court recognized was the product of Nilssen's lack of patent-law expertise. *Id.*

A. The Parties and the Patents at Issue

Petitioners are Ole Nilssen, a visionary inventor, and Geo Foundation Ltd. ("Geo"), to which he transferred patent licensing rights in 2000. Pet. App. 3a. During a career spanning 50 years, Nilssen has contributed greatly to the development of energy-saving devices while assembling a portfolio of over 240 patents. *Id.* at 26a-27a. For many years, Nilssen preferred to prosecute his patent applications *pro se*. *Id.* As the Federal Circuit noted, *id.* at 22a-23a, this proved to be a mistake because he made many small errors that respondent Osram, a major manufacturer of lighting products, turned to its advantage in this suit.

Nilssen invented the first successful configuration of the compact fluorescent lamp or "CFL," the often spiral-shaped bulb that can be screwed into a regular socket and is fast replacing the traditional incandescent light bulb. A CFL uses about 75% less energy than a standard incandescent bulb and lasts years longer.[2] Osram boasts that the CFLs they manufacture "reduce power costs and consequently the level of CO_2 emissions by up to 80 percent compared with comparably bright incandescent lamps — and they live 15 times longer!"[3]

These factors result in massive savings. At a cost of about $3.00 per bulb, a household that changed "30 fixtures to CFLs would save $440 to $1,500 over the five-year life of the bulbs."[4] Indeed, Osram's packaging for a 13-watt CFL states it will replace a 60-watt incandescent bulb and will save $56.00 over the life of the bulb. Replacing the 4.4 billion incandescent bulbs in the United States with CFLs would thus save consumers nearly *$250 billion* in electricity costs, plus nearly $80 billion in expenses related to carbon-dioxide emissions.[5]

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[2] *See* Marianne Lavelle, *FAQ: The End of the Light Bulb as We Know It*, U.S. NEWS & WORLD REP., Dec. 19, 2007.

[3] *See* OSRAM Energy Saving Lamps, *available at* http://www.osram.com/osram_com/Consumer/Home_Lighting/Energy_saving_lamps/index.html (last visited Apr. 11, 2008) [hereinafter "*Energy Saving Lamps*"].

[4] Lavelle, *supra*.

[5] *See* Michael Barbaro, *Wal-Mart Puts Some Muscle Behind Power-Sipping Bulbs*, N.Y. TIMES, Jan. 2, 2007, at A1 (explaining that each CFL "produces 450 pounds fewer greenhouse gases from power plants").

As Osram itself has stated, CFLs "will replace incandescent lamps completely in a matter of years."[6] Just four months ago, "President Bush signed legislation that will phase out traditional incandescent bulbs by 2014 to meet new standards that will require bulbs to become at least 30 percent more efficient. As a result, Americans increasingly will replace their old bulbs with more expensive spiral-shaped compact fluorescent lights, or CFLs."[7]

Of the patents at issue here, six cover versions of the CFL. *See* Pet. App. 2a. The rest cover electronic ballasts used in fluorescent lighting. *Id.* If any of the CFL patents were enforceable, Nilssen would have patent rights potentially covering all U.S. manufacturing of CFLs. Given the expected replacement of four billion incandescent bulbs with CFLs in the United States (at approximately $3.00 per bulb) and a typical licensing royalty of 5%, any one of these individual patents is likely worth hundreds of millions of dollars.

B. Rulings Below

Petitioners sued respondents for patent infringement in the Northern District of Illinois. Pet. App. 24a. Although they initially relied on a

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[6] *See Energy Saving Lamps*, *supra*.

[7] Courtney Condron & Nathan Gill, *KC Takes Leading Role in Promoting Energy-Saving Compact Fluorescent Lights*, KAN. CITY STAR, Jan. 21, 2008, at B1; *see also* Energy Independence & Security Act of 2007, Pub. L. No. 110-140, §§ 321-323, 121 Stat. 1492, 1573-91; John M. Broder, *House, 314-100, Passes Broad Energy Bill; Bush to Sign It Today*, N.Y. TIMES, Dec. 19, 2007, at A24.

larger number of patents, by the time of trial petitioners sought to enforce 11 patents. *Id.* at 2a, 24a.

Attempting to avoid the infringement allegations, Osram dredged up every conceivable misstep that Nilssen had made in prosecuting a large number of patents. That approach succeeded. After a bench trial, the District Court held unenforceable all 11 patents-in-suit, as well as four patents that petitioners had withdrawn from the lawsuit. Pet. App. 2a, 23a, 78a.

The Federal Circuit affirmed, deferring to the District Court even as it recognized that the evidence reflected a *pro se* patent applicant who made a series of inadvertent errors that were not highly material. *Id.* at 2a, 22a-23a.

1. Categories of Inequitable Conduct at Issue

a. *Motorola* Litigation

The District Court found inequitable conduct regarding eight patents-in-suit on the basis that Nilssen failed to disclose the existence of lawsuits he had filed against Motorola, Inc. Pet. App. 72a-75a. The *Motorola* litigation was based on electronic-ballast patents granted to Nilssen earlier than those at issue here. *Id.* at 6a. It was undisputed that nothing happened in *Motorola* that could have affected the prosecution of the patents-in-suit here. Osram's expert did not opine that any information identified in *Motorola*, such as prior art, pertained to prosecution of the patents at issue here. Nor did either the District Court or the Federal Circuit

suggest there was such information. *Id.* at 19a-20a, 40a-41a. Nevertheless, the District Court concluded that Nilssen's nondisclosure of the *Motorola* litigation was highly material and intentional, and the Federal Circuit deferred to those findings. *Id.* at 20a, 22a, 74a.

Both courts found materiality as a matter of law. *Id.* at 20a, 74a. They pointed to Section 2001.06(c) of the nonbinding Manual of Patent Examining Procedure ("MPEP"), which instructs patent applicants to disclose any litigation involving the same "subject matter" as the patent being sought. *Id.* at 19a-20a, 72a-73a. In so ruling, the Federal Circuit adopted a broad reading of the term "subject matter" going well beyond the reading adopted in prior cases. *See, e.g., Kothmann Enters., Inc. v. Trinity Indus., Inc.*, 455 F. Supp. 2d 608, 626-27, 636 (S.D. Tex. 2006). The Federal Circuit explained that under this section, the mere existence of litigation is considered material "because it signals the examiner that other material information relevant to patentability *may* become available through the litigation proceedings." Pet. App. 20a (emphasis added).

Without explanation, the Federal Circuit also affirmed the District Court's finding that Nilssen's failure to disclose the utterly inconsequential *Motorola* litigation was intentional. *Id.* It did so even though there was no direct evidence of intent, Nilssen's testimony that he had no knowledge of MPEP § 2001.06(c) was plausible, and Nilssen had no motive to withhold information that was not

relevant to patentability. The Federal Circuit acknowledged that Nilssen's "[f]ailure to cite the Motorola litigation to the PTO [Patent and Trademark Office] may have been an oversight." Pet. App. 22a.

b. Underpaying Maintenance Fees

The District Court also held all 11 patents-in-suit unenforceable based on Nilssen's underpayment of patent maintenance fees. Pet. App. 63a. A patent holder pays maintenance fees to the PTO roughly four, eight, and twelve years *after* the patent has issued. *Id.* at 56a. Maintenance fees therefore have no possible bearing on the decision to grant the patent. *See id.* at 14a. But the Federal Circuit treated underpayment of maintenance fees as the equivalent of inequitable conduct in the process of prosecuting a patent application. *Id.* at 11a-17a.

Under the PTO's regulations, as an individual inventor, Nilssen was allowed to pay maintenance fees at a reduced rate — the "small-entity rate" — if they were not licensed, or obligated to be licensed, to a "large" entity. *Id.* at 11a-12a, 56a-57a. Between 1995 and 2000, Nilssen paid large-entity fees on most of his patents because they were licensed to a large entity. *Id.* at 13a, 22a. He believed he was entitled to pay small-entity fees on some patents, however, because the only extant agreement relating to licensing those patents (the "CFL Agreement" or "CFLA") did not, in his judgment, create an "obligation" to license the patents to a large entity. *Id.* at 4a-5a. Nilssen read the agreement as making any obligation to license contingent on future events

that Nilssen could prevent. *See id.* at 4a-5a, 13a. The District Court, however, interpreted the agreement as creating a noncontingent obligation to license and found that Nilssen had intentionally underpaid maintenance fees on patents subject to the agreement. *Id.* at 12a-14a, 59a-60a.

For the subsequent period, from 2000 to 2005, Nilssen believed he was entitled to pay at the lower rate for all the patents-in-suit because they were then licensed to petitioner Geo Foundation, a nonprofit, which in turn granted sublicenses to various companies. *Id.* at 3a. The PTO regulation in effect in 2000 seemed to say that a nonprofit was entitled to pay small-entity maintenance fees even if it licensed its patents to a large entity. *Id.* at 15a-16a, 57a-58a. Nilssen testified that he relied on the regulation as written in 2000 and did not learn that it was subsequently amended to preclude such a reading. *Id.* at 15a-16a, 60a-62a. Even though there was no evidence that Nilssen knew of the change and his own copy of the rules predated the change, the District Court found that Nilssen must have known about the amendment to the regulation and that he intentionally underpaid maintenance fees in this period as well. *Id.* at 63a.

Before trial, when Osram called the underpayments to Nilssen's attention, he promptly paid the PTO the difference between small- and large-entity fees. *See id.* at 59a. Under PTO regulations, those deficiency payments cured and excused the errors. *See* 37 C.F.R. § 1.28(c) (2005).

In finding deliberate underpayments as to both the pre-2000 and the post-2000 maintenance fees, the District Court ignored the fact that it would have been utterly irrational for Nilssen to underpay these fees intentionally, given the huge value of the patents put at risk and the fact that Nilssen was already in litigation on these patents. The Federal Circuit, although affirming on the maintenance-fee issue, specifically acknowledged that both the CFLA and the pre-amendment version of the PTO regulation could reasonably be read as Nilssen testified he had understood them. Pet. App. 16a, 22a. But it deferred to the District Court's largely unexplained findings of deliberate underpayment. *Id.* at 14a, 16a, 22a.

c. Cross-Referencing a 1978 Application

The District Court further found inequitable conduct with respect to seven patents-in-suit based on Nilssen's cross-referencing a 1978 application, minor errors that the courts below mischaracterized as "priority misclaims." Pet. App. 17a-18a, 63a-72a. A priority date determines whether some other invention constitutes "prior art" that could bar the patent application from being granted. Patent law allows a patent to claim priority to the filing date of an earlier patent application where various requirements are met. *Id.* at 64a-69a. Here, Nilssen "cross-referenced" an earlier application filed in 1978 even though for highly technical reasons those cross-references were found defective. *Id.* at 5a-6a.

As Osram's own expert conceded, however, when prosecuting the patents-in-suit, Nilssen never relied

on the 1978 cross-references to establish priority dates that would distinguish prior art. *See id.* at 17a-18a. Indeed, during prosecution, when the examiner cited prior art that could have been avoided using a 1978 priority date, Nilssen declined to do so and instead distinguished the art on the merits. So the 1978 date could not have affected the outcome of the patent prosecutions. *See id.* The Federal Circuit nonetheless affirmed the District Court's finding of materiality. *Id.* at 18a. The Federal Circuit also upheld the District Court's finding of intent while acknowledging that Nilssen might not have "expressly assert[ed] an unjustified earlier priority date to obviate prior art." *Id.* at 22a.[8]

2. The "Collection" of Errors

The Federal Circuit concluded by acknowledging that Nilssen's explanations for each individual error were reasonable but held that "inadvertence can carry an applicant only so far" and that the "collection" of problems supported findings of inequitable conduct. Pet. App. 22a-23a.

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[8] The Federal Circuit affirmed two other determinations of inequitable conduct: (1) for two patents Nilssen had withdrawn from suit, that Nilssen gave the PTO accurate expert affidavits that did not disclose the expert's affiliation with Nilssen; and (2) for three patents-in-suit and two withdrawn patents, that Nilssen failed to disclose material prior art. *Id.* at 9a-11a, 20a-22a. These determinations suffer some of the same flaws as the others; but in any event they do not apply to 8 of the 11 patents-in-suit.

3. The Weighing of the Equities

The final stage of the inequitable-conduct analysis is determining whether the intentional and material misconduct already proved is so culpable that it "warrants holding the patent unenforceable." *Monsanto Co. v. Bayer BioScience N.V.*, 363 F.3d 1235, 1239 (Fed. Cir. 2004). The District Court made only boilerplate findings on this issue, *see, e.g.*, Pet. App. 63a, 78a, never explaining, for example, how the equities could justify imposing a penalty potentially costing petitioners hundreds of millions of dollars where (1) almost all the misconduct at issue was trivial and (2) there was every reason to conclude that Nilssen could have obtained patent protection for his inventions absent any of the omissions or misstatements at issue. The Federal Circuit saw no flaw in this approach.

REASONS FOR GRANTING THE WRIT

As in several prior cases,[9] this case involves the Federal Circuit's transformation of an important doctrine of patent law in a manner that disregards a seminal decision of this Court and makes little sense. The inequitable-conduct doctrine, much like the doctrine of equivalents at issue in the *Warner-*

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[9] *See, e.g.*, *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 24-36 (1997) (correcting the Federal Circuit's misapplication of *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605 (1950)); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739-40 (2002) (correcting the Federal Circuit's misapplication of *Warner-Jenkinson*); *KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1739-41 (2007) (correcting the Federal Circuit's misapplication of *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1 (1966)).

Jenkinson case, has "taken on a life of its own"[10] in the hands of the Federal Circuit, departing from the basic principles of equity that underlay this Court's decision to recognize the doctrine in *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945). *Precision Instrument* was a case about the consequences of obtaining a patent by presenting and later concealing perjured testimony. *Id.* at 816-19. On those facts, the Court held that equity would not allow a plaintiff with unclean hands to enforce its ill-gotten patent rights. *Id.* at 814-20. Of course, in that case, the plaintiff had committed *fraud*, which requires clear and convincing evidence of intent and materiality, as well as actual reliance. *Id.* at 816-19.

For many years, the *Precision Instrument* standard was applied very narrowly and played only a minor role in patent litigation. But in recent years, the inequitable-conduct doctrine has evolved to a point where it bears little resemblance to its origins, and raising such claims has become a routine part of how lawyers defend against infringement allegations. As this case illustrates, patentees are now often deprived of valuable property rights for conduct that in no way helped them to obtain those rights, based on very weak evidence of intent, and even where the value of the lost patent rights is vastly disproportionate to the misconduct at issue.

The evolution of the inequitable-conduct doctrine has several interrelated aspects. One is the Federal Circuit's relaxation of the requirement that

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[10] *Warner-Jenkinson*, 520 U.S. at 28.

misstatements and omissions during patent prosecution be "material" to patentability — *i.e.*, be important factors in the outcome of the prosecution. Here, for example, for most of the 11 patents-in-suit, it is certain that the inequitable conduct alleged by Osram had no effect whatsoever on the PTO's decision-making. Indeed, the three forms of inequitable conduct principally at issue were indisputably immaterial as a matter of fact but were treated by the Federal Circuit as material as a matter of law. Pet. App. 14a, 18a, 20a.

This relaxation of the materiality rule would not have produced such a trap for the unwary patentee if the Federal Circuit had maintained in full force the second requirement — clear-and-convincing proof that the inventor acted with intent to deceive the PTO. But that requirement also has been eviscerated. Here, because there were multiple errors, the Court of Appeals was willing to defer to findings of intent that were based on little more than the district judge's unexplained disbelief of the inventor's plausible claims of unintentional error. *Id.* at 22a-23a.

But perhaps the most harmful change made by the Federal Circuit is the effective elimination of what had been the final stage of the inequitable-conduct inquiry — the weighing of the equities. That discretionary stage was essential to prevent grossly unjust outcomes. But now, when the Federal Circuit's watered-down requirements of materiality and intent are satisfied, there no longer is any meaningful balancing to determine whether the

misconduct identified justifies rendering patents unenforceable and worthless.

The Federal Circuit maintains that this final step still exists, but in its current form it has no meaning. The Federal Circuit has never affirmed findings of materiality and intent but gone on to hold that a district court abused its discretion in declaring a patent unenforceable. And the Federal Circuit has never articulated any specific criteria that might justify denying that sanction. Here, the Federal Circuit upheld the District Court's decision to nullify patents on inventions worth hundreds of millions of dollars to petitioners and hundreds of billions of dollars to the American economy, even though the evidence of intentional misconduct was very thin, as the Federal Circuit itself acknowledged, and even though it was clear that the patentee could have obtained much the same patent protection without engaging in any misconduct. So an equitable balancing test has effectively hardened into a categorical rule certain to produce outcomes that are profoundly inequitable.

This Court has seen such a phenomenon before. In *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), the Court rejected the Federal Circuit's categorical rule requiring issuance of an injunction in almost all circumstances once infringement has been found. *Id.* at 391-94. This Court held that equity requires case-by-case balancing. *Id.* A similar correction is glaringly needed here, where the Federal Circuit's departures from the original principles of *Precision Instrument* mean that (1)

gargantuan penalties may be imposed (as here) as an automatic sanction for minimal misconduct and (2) inequitable-conduct claims are being asserted routinely, threatening arbitrary deprivation of valuable property rights whenever a patentee seeks to vindicate those rights against an infringer.

I. THE COURT SHOULD GRANT REVIEW TO RESTORE RIGOROUS REQUIREMENTS OF MATERIALITY AND INTENT.

A. Watered-Down Notions of Materiality and Intent Have Caused a Plague of Inequitable-Conduct Cases.

More than 60 years ago, applying the principle of "unclean hands," this Court recognized that judges asked to grant equitable relief in patent cases need to take account of serious misconduct that plaintiffs committed while prosecuting their patents. In *Precision Instrument*, the inventor had engaged in perjury, and his assignee had entered into contracts to continue to hide perjury from the Patent Office and the courts. *See* 324 U.S. at 807-14. This Court held that federal courts' inherent equitable powers could be invoked to refuse enforcement of the perjury-tainted patents. *Id.* at 816. The doctrine of inequitable conduct was thus created "to safeguard the public in the first instance against fraudulent patent monopolies." *Id.* at 818.

1. Materiality

For more than two decades after *Precision Instrument*, the doctrine was interpreted narrowly with few, if any, cases refusing enforcement of issued

patents. Subsequently, some courts of appeals began expanding the doctrine, holding that withheld information could form the basis of an inequitable-conduct finding if it "may have been" relevant to patentability, while other courts maintained an objective or subjective "but for" standard for materiality. *See American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1362 (Fed. Cir. 1984). The PTO adopted a standard (Rule 56) similar to the "may have been" standard. It deemed information material where there is "[1] a substantial likelihood that [2] a reasonable examiner [3] would consider it important [4] in deciding whether to allow the application to issue as a patent." 37 C.F.R. § 1.56(a) (1988). In *American Hoist*, the Federal Circuit held that information could be material under *any* of these standards, but that the PTO's standard is the "appropriate starting point." 725 F.2d at 1363.

By concluding that information was material so long as it was likely important to a reasonable examiner in deciding whether to allow the patent, the Federal Circuit strayed from *Precision Instrument* in that the information withheld did not have to be objectively determinative of patentability. In other words, unlike common-law fraud, there did not have to be any *reliance* on the misrepresentations or omissions for a finding of unenforceability. In contrast, this Court has held a patent enforceable despite outright misrepresentations during prosecution where the misrepresentations "were not the basis for [the patent] or essentially material to

its issue." *Corona Cord Tire Co. v. Dovan Chem. Corp.*, 276 U.S. 358, 373-74 (1928).

Soon, the Federal Circuit's tests went beyond what the PTO itself deemed material. In 1992 the PTO adopted a narrower, more specific standard of materiality. Under the PTO's new Rule 56, information is considered material if it establishes "a prima facie case of unpatentability of a claim," defined as information that "*compels* a conclusion that a claim is unpatentable." 37 C.F.R. § 1.56(b) (2004) (emphasis added), *reprinted at* Pet. App. 82a-83a.[11] The new regulations specify that there is no duty to submit information that does not meet these materiality standards. *Id.* § 1.56(a). Nonetheless, the Federal Circuit later concluded that failure to submit information meeting any of the prior, broader standards of materiality can constitute inequitable conduct. *See Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1315-16 (Fed. Cir. 2006).

In reaching this conclusion, the court undermined the PTO's expressed purpose for the new rule: to "provide greater clarity and hopefully minimize the burden of litigation on the question of inequitable conduct." Duty of Disclosure, 57 FED. REG. 2021, 2023 (Jan. 17, 1992). It also ignored this Court's admonishment that judges should be cautious in policing information submitted to an administrative agency (here the PTO) that has the competence and

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[11] Information is also material if it "refutes, or is inconsistent with, a position the applicant takes in: (i) Opposing an argument of unpatentability relied on by the [Patent] Office, or (ii) Asserting an argument of patentability." *Id.*

expertise to police its own procedures. *See Buckman Co. v. Plaintiffs' Legal Comm.*, 531 U.S. 341, 350-51 (2001); *ABF Freight Sys., Inc. v. NLRB*, 510 U.S. 317, 323-25 (1994); *Vermont Yankee Nuclear Power Corp. v. NRDC*, 435 U.S. 519, 524-25 (1978).

In recent years, the Federal Circuit has further expanded the concept of materiality, departing even from its own express standards requiring that information at least be *potentially* relevant to patentability. For example, the Federal Circuit has expressly held that failure to pay maintenance fees, years after a patent has already issued, can be material and can justify denying all enforcement of a patent from the date it issued. *See Ulead Sys., Inc. v. Lex Computer & Mgmt. Corp.*, 351 F.3d 1139, 1146 (Fed. Cir. 2003). In other instances, the Federal Circuit has undercut any meaningful materiality requirement less expressly, but just as effectively, by relying on reasoning showing that there need not be any real relevance to patentability. *See, e.g., Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1187-90, 1194 (Fed. Cir. 2006) (holding patent unenforceable for failure to identify declarant's interest); *Hoffman-La Roche, Inc. v. Promega Corp.*, 323 F.3d 1354, 1372-81 (Fed. Cir. 2003) (Newman, J., dissenting) (describing findings of materiality with respect to characterization of an experiment even though there was no dispute the experiment would work).

2. Intent

The breakdown of any meaningful materiality requirement has been accompanied, and

exacerbated, by a parallel collapse in the standard for assessing whether the applicant had the requisite intent to deceive the PTO. Under the doctrine of unclean hands that this Court invoked in *Precision Instrument*, deliberate deception is required. *See A.H. Emery Co. v. Marcan Prods. Corp.*, 389 F.2d 11, 17 n.4 (2d Cir. 1968); *Eresch v. Braecklein*, 133 F.2d 12, 14 (10th Cir. 1943).

That requirement was substantially eroded by a series of decisions in the 1970s and 1980s from the regional circuits and then the Federal Circuit. By 1988, with the courts applying a weakened deceptive-intent standard, fully 80% of all patent-infringement cases included charges of inequitable conduct. *See* Ad Hoc Committee on Rule 56 and Inequitable Conduct, American Intellectual Property Law Association, *The Doctrine of Inequitable Conduct and the Duty of Candor in Patent Prosecution: Its Current Adverse Impact on the Operation of the United States Patent System*, 16 AIPLA Q.J. 74, 75 (1987).

Even the Federal Circuit recognized that the doctrine had become "an absolute plague" on the patent system, with charges of inequitable conduct in "almost every major patent case." *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988). In response, the Federal Circuit, sitting en banc, held in *Kingsdown Medical Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867 (Fed. Cir. 1988), that "intent to deceive" is indeed a requirement in all inequitable-conduct cases and that gross negligence is insufficient. *Id.* at 876.

But the impact of *Kingsdown* was soon chipped away by panel opinions from the Federal Circuit. Evidence of intent that had once been deemed sufficient only in cases of high materiality was held to suffice even in cases of low materiality. *See, e.g.*, *Hoffman-La Roche*, 323 F.3d at 1366-67 (upholding findings of intent in case of low materiality based on inventor's failure to explain his error); *Novo Nordisk Pharm., Inc. v. Bio-Technology Gen. Corp.*, 424 F.3d 1347, 1361-62 (Fed. Cir. 2005) (imputing knowledge of MPEP provision to inventor). Today, the legal standard purports to require intent but in fact requires little more than negligence. *See, e.g.*, James E. Hanft & Stacey S. Kerns, *The Return of the Inequitable Conduct Plague: When "I Did Not Know" Unexpectedly Becomes "You Should Have Known,"* INTELL. PROP. & TECH. L.J., Feb. 2007, at 5 ("The theme of these decisions is that, once materiality of information is found, the Federal Circuit is far more likely to infer an intent to deceive . . . than it has in the past. The trend is away from the stricter standard of *Kingsdown*, which required proof of *scienter* of the charged party, and more toward a strict liability standard."); Charles M. McMahon, *Intent to Commit Fraud on the USPTO: Is Mere Negligence Once Again Inequitable?*, 27 AIPLA Q.J. 49, 75-76 (1999) (noting renewed use of "should have known" standard that provides an incentive to dig through plaintiff's files for a shot at rendering the patent unenforceable). Moreover, the Federal Circuit has now allowed proof of intent to be based on inferences from multiple mistakes across multiple patents even when there is no logical nexus

between these mistakes and there is inadequate evidence to support an intent finding for any one of them alone. Pet. App. 22a-23a.

As the intent standard has weakened, the "absolute plague" of inequitable-conduct charges has returned. *See* Lynn C. Tyler, Kingsdown *Fifteen Years Later: What Does It Take to Prove Inequitable Conduct?*, 13 FED. CIR. B.J. 267, 276, 283 (2003). In a recent four-year period, the percentage of cases with inequitable-conduct rulings nearly doubled, *see* Kevin Mack, *Reforming Inequitable Conduct To Improve Patent Quality*, 21 BERKELEY TECH. L.J. 147, 155 (2006), leading Judge Newman to denounce the epidemic of "[l]itigation-induced assaults on the conduct of science and scientists, by aggressive advocates intent on destruction of reputation and property for private gain." *Hoffman-La Roche*, 323 F.3d at 1372 (Newman, J., dissenting).

The vast recent expansion of the doctrine — with no basis in congressional action or Patent Office regulation or the decisions of this Court — has had far-reaching ramifications. The enforceability of otherwise valid patents is regularly challenged in litigation, frustrating the incentive goals of the patent system, adversely affecting decisions to invest in innovative technologies, and escalating patent-litigation costs. In fact, the National Academy of Sciences and the National Academy of Engineering have recommended abolishing the inequitable-conduct doctrine "to reduce the cost and increase the predictability of patent infringement litigation outcomes." National Research Council, *A Patent*

System for the 21st Century 82-83 (2004); *see id.* at 121-23; *see also* Paul M. Janicke, *Do We Really Need So Many Mental and Emotional States in United States Patent Law?*, 8 TEX. INTELL. PROP. L.J. 279, 292 (2000) (noting that no other country has adopted an inequitable-conduct defense because the doctrine "truly applies only where the patent is valid but was improperly procured," and that the "number of these instances is bound to be small and does not seem to justify putting every patentee through the cost and jeopardy of a trial on inequitable conduct").

B. This Case Illustrates the Problems with the Federal Circuit's Watered-Down Notions of Materiality and Intent.

Here, the Federal Circuit affirmed inequitable-conduct defenses where the misstatements or omissions had no bearing on patentability and where the evidence of intent at most amounted to evidence of negligence. By doing so, the Federal Circuit further watered down the standards for materiality and intent. This Court should act now to stem the plague of litigation over allegedly inequitable conduct.

1. Materiality

a. Failing to disclose litigation of no relevance to patentability

Exemplifying the Federal Circuit's relaxation of the materiality standard is the court's decision to uphold an unenforceability ruling based on Nilssen's failure to disclose the existence of the *Motorola* litigation even though the litigation had not

presented any information even minimally relevant to patentability. Pet. App. 19a-20a. In doing so, the Federal Circuit departed drastically from Rule 56's definition of materiality as information that establishes a "prima facie case of unpatentability" and "*compels* a conclusion that a claim is unpatentable." 37 C.F.R. § 1.56(b) (2004) (emphasis added), *reprinted at* Pet. App. 82a-83a. It ignored even the Federal Circuit's own broad standard under which information is material if it would be important "in deciding whether to allow the application to issue as a patent." *Digital Control*, 437 F.3d at 1315-16. The existence of the *Motorola* litigation itself had not the slightest possible bearing on patentability.

In declaring Nilssen's patents unenforceable on this basis, the Federal Circuit relied on the language in the MPEP requiring disclosure of any litigation on the same "subject matter." Pet. App. 19a-20a. The court did not explain why this nonbinding manual trumped the regulations or justified an expansion of the doctrine. *See* Foreword, MANUAL OF PATENT EXAMINING PROCEDURE (8th ed. rev. 6 2007), *available at* http://www.uspto.gov/web/offices/pac/mpep/documents/foreword.htm (explaining that MPEP lacks the force of law or regulations). Instead, the court explained that, even where no material information has arisen in the litigation, the examiner needs to be told about the litigation's existence "because it signals the examiner that . . . material information relevant to patentability *may become available* throug[h] the litigation proceedings." *Id.* at 20a (emphasis added). The Federal Circuit

thus improperly watered down the requirement of "material information" so that it encompasses nonmaterial information that might (or might not) lead to material information at some point in the future. Perhaps next, applicants will be required to disclose nonmaterial information that might lead to nonmaterial information that might lead to material information.

Furthermore, requiring the applicant to disclose litigation does nothing to affect whether he will disclose any material information that arises later in the litigation. After all, he is already required to disclose all material information that comes to light during the prosecution, regardless of whether it comes to light through litigation or any other means. Here, absolutely nothing material happened in the *Motorola* litigation, so it is clear that Nilssen's omission had no impact whatsoever on patentability.

b. Underpaying maintenance fees years after the patents issued

The decisions below declaring patents unenforceable for underpaying maintenance fees are also emblematic of the extent to which the inequitable-conduct doctrine has come untethered from Rule 56 and from the concept that material information must have at least the *potential* to affect patentability. These fees were paid four, eight, or twelve years after the PTO issued the patents, Pet. App. 14a, and thus obviously had no potential bearing on patentability. Indeed, the Federal Circuit admitted as much when it stated that "a misrepresentation of small entity status is not

strictly speaking inequitable conduct in the prosecution of a patent, as the patent has already issued if maintenance fees are payable." *Id.*

In holding the patents unenforceable, the court relied on *Ulead*, 351 F.3d at 1144-50, which dramatically expanded the inequitable-conduct doctrine. *Ulead* held that the Patent Office's need for accurate information is "equally important" when the application is pending before an examiner and when maintenance fees are being paid years later. *Id.* at 1144.

In dissent in *Ulead*, Judge Newman faulted the majority for "presum[ing] the materiality prong of inequitable conduct, without discussion or analysis." *Id.* at 1154 (dissenting in part). Under both Supreme Court and Federal Circuit precedents, she noted, vested property rights in a patent could be nullified only if the patent had "been *procured* by inequitable conduct in the PTO." *Id.* at 1155 (citing *Aptix Corp. v. Quickturn Design Sys. Inc.*, 269 F.3d 1369, 1376 (Fed. Cir. 2001)) (emphasis added). Judge Newman also pointed out that declaring a patent unenforceable based on underpaying maintenance fees conflicted with the federal regulation permitting a patentee to cure such errors by making deficiency payments, as Nilssen did here. 37 C.F.R. § 1.28(c) (2005); *see Ulead*, 351 F.3d at 1152-53 (Newman, J., dissenting in part).

The extreme nature of the Federal Circuit's position is evidenced by its holding that Nilssen's underpayment destroyed his patent rights retroactively, so that he could not recover damages

even for infringement that Osram engaged in *before* the maintenance fees were underpaid. *See* Pet. App. 14a-17a.

c. Cross-referencing an application not relied on during prosecution

The decisions below declaring seven patents unenforceable based on inaccurate cross-references to a 1978 application further epitomize the weakened materiality requirement. These cross-references had absolutely no potential to impact patentability without more. Nilssen did not rely on these dates during prosecution, even when the examiner cited references that could have been avoided by invoking the 1978 date. The Federal Circuit had previously recognized that there can be no materiality in these circumstances. *See Purdue Pharma L.P. v. Boehringer Ingelheim GmbH*, 237 F.3d 1359, 1367 (Fed. Cir. 2001). Here, the Federal Circuit departed from *Boehringer* without even mentioning it and for the first time asserted that a cross-reference to an earlier application is "inherently material" because the date on that application "*may* determine validity." Pet. App. 18a (emphasis added). But since Nilssen did not rely on the 1978 date, no such potential existed here. Indeed, the MPEP instructs examiners to ignore cross-references, such as the ones Nilssen made here, unless the applicant argues under 35 U.S.C. § 120 that these cross-references entitle him to a particular priority date. *See* MPEP § 201.08. Nilssen made no such argument.

The ruling on the cross-referencing, like the other materiality rulings, unjustifiably expanded the

doctrine that this Court created in *Precision Instrument* to deter and punish applicants who defraud the Patent Office while prosecuting patents. Properly delineated, the doctrine acknowledges that inventors prosecute their patent applications *ex parte* and that enforcing the duty of candor protects other inventors who are outside the *ex parte* process. Other inventors need not be shielded, however, from omissions unrelated to patentability.

An untethered concept of materiality causes severely harmful consequences of its own. It makes inventors uncertain about what they need to submit to the Patent Office and encourages them to dump piles of irrelevant information on the Office's examiners. It greatly magnifies the costs of litigating patent suits and the burden on the courts of adjudicating such suits, as defendants search file histories for omissions that might be deemed material. And it increases the uncertainty of patent rights.

2. Intent

This case also illustrates the simultaneous relaxation of the intent requirement. The Federal Circuit here demanded virtually no evidence of deceptive intent even though, in theory, especially strong evidence of intent should be required where materiality is low. *See Purdue Pharma L.P. v. Endo Pharm. Inc.*, 438 F.3d 1123, 1128-29 (Fed. Cir. 2006) (applying this sliding scale). But the Federal Circuit now accepts the weakest evidence of intent even in cases like this one, effectively transforming the standard from deceptive intent to negligence.

Here, it would have been irrational for Nilssen to deceive the PTO intentionally in the ways alleged, and no direct evidence provided real support for a claim of intentional deception. So the District Court based its intent findings primarily on its unexplained refusal to believe Nilssen's reasonable explanations for his mistakes. *See, e.g.*, Pet. App. 14a-15a, 18a, 22a, 60a-62a, 72a, 74a.

For each of the three errors — failing to disclose the *Motorola* litigation, paying small-entity fees after 2000, and incorrectly cross-referencing a 1978 application — Nilssen explained that he was unaware of the obscure and in some cases highly technical MPEP provisions that he ostensibly violated. *Id.* at 15a, 19a, 66a-69a. For one of these, the post-2000 small-entity payments, the rule not only was technical but also was so opaque that it had to be rewritten in 2001; and Nilssen testified he was unaware of the change. *Id.* at 15a-16a. Courts have acknowledged that even experienced patent attorneys may be unaware of these obscure provisions. *See, e.g.*, *Kothmann*, 455 F. Supp. 2d at 636. Regarding the cross-referencing of a 1978 application, Osram's own patent-law expert could not say whether those errors were mistaken or intentional. Yet the District Court found intent based merely on its disbelief of Nilssen's explanations. Pet. App. 72a.

The Federal Circuit, however, recognized that Nilssen's explanations "were not per se unreasonable when considered in isolation." *Id.* at 22a. And it characterized Nilssen's errors as "inadverten[t]" and

as "[m]istakes." *Id.* So in affirming the District Court's findings of deceptive intent, the appellate court had to rely on the "collection" of problems spanning multiple patents as sufficient evidence to support intent findings infecting all the patents. *Id.* For example, this "collection" of problems led to the demise of the '270 patent, even though (1) the sole ground of inequitable conduct for that patent was the underpayment of maintenance fees, (2) it would have been totally irrational for Nilssen to put more than $100,000,000 in royalties at risk by underpaying $5,000 in maintenance fees for that patent, (3) Nilssen had repeatedly made large-entity payments on other patents, suggesting he made such payments when he thought they were due, (4) the Federal Circuit acknowledged that Nilssen's interpretation of the CFL Agreement as not establishing a license requiring large-entity payments for the '270 patent was not unreasonable, and (5) the other inequitable-conduct findings (such as failure to disclose the *Motorola* litigation) were entirely unrelated to the '270 patent. *Id.* at 5a, 12a, 13a-14a, 22a-23a, 63a.

Combining evidence across patents was a deliberate strategy of Osram's, designed to make the whole seem much more serious than the sum of the parts. Indeed, on the heels of the Federal Circuit's decision, respondent's trial counsel gave a speech citing this case as an example of how to build the "inequitable-conduct mosaic" from single tiles in the file history of the patent at issue and "other patents naming the same inventor," so that "multiple

mistakes can mature into a legitimate claim of inequitable conduct."[12]

Now that Osram's "mosaic" theory has been adopted by the Federal Circuit, it will further distort patent litigation. Patent infringers will scour an inventor's entire patent portfolio to find errors in prosecution. This inquisition will extend to unrelated patents, as long as they have common inventorship or prosecuting counsel. It also will extend to unrelated issues. The most prolific inventors will be most aggressively targeted, as they have filed more applications and thus have had more chances to make mistakes. In response, patentees will try to show a pattern of good behavior, pointing to all the rules they did comply with. There will be no stopping point. And the discovery required will be virtually endless.

When this Court blessed the doctrine of inequitable conduct in *Precision Instrument*, it surely did not set out to deter and punish inadvertent mistakes, or even "collections" of inadvertent mistakes, whether they were committed by experienced patent counsel or, as here, by an inventor who injudiciously opted to prosecute and maintain dozens of valuable patents *pro se*. For these reasons, the Court should grant review of whether the Federal Circuit's definitions of "materiality" and "intent to deceive" have lost touch with the doctrine's equitable roots.

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[12] *See* Cornwell & Rygiel, *supra*, at 6, 13.

II. THE COURT SHOULD GRANT REVIEW TO DETERMINE WHETHER THE FEDERAL CIRCUIT HAS IMPROPERLY ELIMINATED ALL WEIGHING OF THE EQUITIES.

As is fitting for a doctrine rooted in equity, when this Court first concluded that inequitable conduct could render a patent unenforceable, it did so recognizing that there would be a "wide range to the equity court's [discretion]," taking into account private and public interests, the type of misconduct, the degree of culpability, and whether the misconduct "impregnated" the "entire cause of action and justified dismissal." *Precision Instrument*, 324 U.S. at 815, 819. The Federal Circuit has thus long recognized, at least in theory, that after finding (by clear and convincing evidence) that an applicant intended to deceive the Patent Office when he failed to disclose material information, the trial court must weigh "the materiality and intent '[i]n light of all the circumstances' to determine 'whether the applicant's conduct is so culpable that the patent should be held unenforceable.'" *Boehringer*, 237 F.3d at 1366 (quoting *Baxter Int'l, Inc. v. McGaw, Inc.*, 149 F.3d 1321, 1327 (Fed. Cir. 1998)). But that requirement is close to a dead letter in practice.

The Federal Circuit has abandoned any attempt to seriously review this exercise of discretion, and district judges in turn generally give this step of the inequitable-conduct analysis little more than a glancing nod. As far as we are aware, the Federal Circuit has *never* relied on the balancing of the equities to reverse a grant of unenforceability based

on inequitable conduct (or to affirm a refusal to grant unenforceability after inequitable conduct has been found). Nor has it ever articulated the factors to be applied in such an analysis.

It has not, for example, applied the sorts of equitable factors that this Court has long recognized as critical in evaluating the acceptability of a punishment: the reprehensibility of the offense, the harm caused, and the magnitude of sanctions for similar misconduct. This Court has applied such factors in assessing punitive damages under the Due Process Clause, *see, e.g.*, *BMW, Inc. of N. Am. v. Gore*, 517 U.S. 559, 574-85 (1996); punishments under the Excessive Fines Clause, *see, e.g.*, *United States v. Bajakajian*, 524 U.S. 321, 334 (1998); and sentences under the Cruel and Unusual Punishments Clause, *see, e.g.*, *Solem v. Helm*, 463 U.S. 277, 284 (1983). These factors stem from the "principle that punishment should fit the crime," a principle that "'is deeply rooted and frequently repeated in common-law jurisprudence.'" *Gore*, 517 U.S. at 575 n.24 (quoting *Solem*, 463 U.S. at 284); *see also Bajakajian*, 524 U.S. at 334 ("The touchstone of the constitutional inquiry under the Excessive Fines Clause is the principle of proportionality: The amount of the forfeiture must bear some relationship to the gravity of the offense . . . ."). In contrast, courts considering inequitable conduct do not apply such factors in evaluating enforceability. To the contrary, once the crime has been found, the death penalty has become virtually automatic.

Indeed, the costs of losing an inequitable-conduct case can be immense. *First*, the entire patent (or here, 15 entire patents) — not just the relevant claim or claims — is rendered permanently unenforceable. *Second*, other patents in the same family, including patents never addressed at the inequitable-conduct trial, may be deemed "infected" by the inequitable conduct. *Third*, as happened here (to the tune of nearly $6 million), the inventor may be forced to pay the defendant's attorney fees. *See Nilssen v. Osram Sylvania, Inc.*, No. 01-C-3585, 2007 WL 257711 (N.D. Ill. Jan. 23, 2007) (citing 35 U.S.C. § 285), *appeals pending*, Nos. 2007-1198 & 2007-1348 (Fed. Cir. 2008).

This is not to suggest that inventors who fail to comply fully with disclosure obligations should face no consequences. But the PTO is more than capable of prescribing sanctions for technical breaches of the type at issue here. The Federal Circuit potentially could do so as well. As Professor Donald Chisum explained more than 20 years ago, "the policy of deterring inequitable conduct should be balanced with the other policies of the patent system. . . . Instead of imposing an automatic sanction of nullity to a patent tainted by inequitable conduct in its procurement, a court should temper the sanctions for inequitable conduct to conform to the seriousness of the offense and the relationship between the conduct and the commercially significant claims in the patent." Donald S. Chisum, *Patent Law and the Presumption of Moral Regularity: A Critical Review of Recent Federal Circuit Decisions on Inequitable Conduct and Willful Infringement*, 69 J. PAT. &

TRADEMARK OFF. SOC'Y 27, 32 (1987). Professor Chisum proposed several alternative remedies, including limitations on injunctive relief or on damages. *Id.* But the failure of the PTO or courts to adopt lesser sanctions cannot justify imposing the harshest penalty in every case.

This case is a prime example of the Federal Circuit's failure to take the equities seriously. As discussed above, the Federal Circuit acknowledged in this case that the findings of intent were thin. Pet. App. 22a-23a. Indeed, it upheld the District Court's intent findings only because there was a "collection" of errors. *Id.* But this mosaic theory is particularly likely to distort the balancing of the equities. Inventors who have more patents (and companies with significant research-and-development budgets that have prosecuted more patents) are likely to have made more errors and thus will face a greater risk of inequitable-conduct findings than those with fewer patents. And the consequences to the inventor are also greater, since multiple patents will be declared unenforceable. The result is that the inventors who are the most prolific technological innovators and make the largest societal contribution are most vulnerable to having their patent rights destroyed.

Similarly, the materiality of the errors here, if any, was of the very weakest sort. Nilssen's conduct caused no actual harm. As we have explained, his errors had little or no chance to affect patentability. They did not harm the system or even potential infringers, as the patents would have issued regardless. And underpaying maintenance fees had

only a minimal financial impact, which was subsequently corrected by deficiency payments. In contrast, the consequences to Nilssen of the rulings here are dramatic — nullifying 15 patents and negating much of his life's work.

The '270 patent, for example, was declared unenforceable solely because Nilssen underpaid maintenance fees by $5,000. These payments had no possible effect on issuance of the patent, so the total harm to the system was $5,000 — and even that amount was paid back. The only evidence of intent to deceive was the District Court's disbelief of Nilssen's reasonable explanations as to why he made such payments (for example, his explanation that the CFL Agreement was conditional, and thus created no "obligation" to license a large entity, a view the Federal Circuit held was reasonable, Pet. App. 22a). But the harm to Nilssen was the loss of a patent worth more than $100 million — a ratio of at least *20,000* to 1. *Compare, e.g., State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 425 (2003) (noting that "few [punitive] awards exceeding a single-digit ratio . . . will satisfy due process").

Comparison to sanctions in other areas of law also shows that the rulings here were grossly disproportionate. For example, courts can refuse to enforce copyrights based on fraud upon the agency, but do so "only rarely, when the [right-holder's] transgression is of serious proportions." 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.09[B], at 13-310 (2006).

The District Court ignored these factors in holding Nilssen's patents unenforceable, saying virtually nothing about the equities, including the huge public benefit generated by CFLs. *See* Pet. App. 78a. And the Federal Circuit said nothing at all about the equities. Neither court evaluated the degree to which the findings of materiality and intent exceeded the threshold for such findings, which the Federal Circuit had previously said it should consider. *See Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1476 (Fed. Cir. 1998). The courts below certainly did not evaluate the sorts of factors this Court has considered in other contexts: the harm caused, or the proportionality between the harm and the punishment, or the types of punishment to which similar offenses are subject. If they had, the patents could not have been declared unenforceable.

Perhaps more than any of the other numerous flaws in the decisions below, this one demonstrates how absurdly untethered from its equitable roots the inequitable-conduct doctrine has become. As discussed, when this Court concluded that inequitable conduct could render a patent unenforceable, it did so recognizing the importance of a wide range of equitable factors, including the public and private interests at stake. And the Federal Circuit too has recognized the theoretical importance of equitable balancing. The public interest here is the one served by the patent system as a whole: ensuring that the system preserves proper incentives for inventiveness. Given the complexities of the patent process and the scientific

process, it almost always will be possible to dredge up errors. *See Hoffman La-Roche*, 323 F.3d at 1381 (Newman, J., dissenting). If inventors are subject in every suit to potential loss of their patent rights based on flyspecking of their patent portfolios to find minute errors that can be asserted to be willful, the cost of litigation will skyrocket and the value of patents will plummet.

This Court should articulate the relevance of factors such as proportionality in assessing whether patents should be declared unenforceable. The time for this Court to rein in the Federal Circuit has now arrived.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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April 15, 2008

APPENDIX

Appendix A

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 2006-1550.

OLE K. NILSSEN
and GEO FOUNDATION, LTD.,

Plaintiffs-Appellants,

v.

OSRAM SYLVANIA, INC.
and OSRAM SYLVANIA PRODUCTS, INC.,

Defendants-Appellees.

DECIDED: Oct. 10, 2007.

Before MAYER and LOURIE, Circuit Judges, and LINARES, District Judge.*

LOURIE, Circuit Judge.

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* Honorable Jose L. Linares, District Judge, United States District Court for the District of New Jersey, sitting by designation.

Ole K. Nilssen and the Geo Foundation, Ltd. (collectively, "appellants") appeal from the judgment of the United States District Court for the Northern District of Illinois in favor of Osram Sylvania, Inc. and Osram Sylvania Products, Inc. (collectively, "Osram") holding fifteen patents issued to Nilssen and exclusively licensed to the Geo Foundation unenforceable for inequitable conduct. Because the district court did not abuse its discretion, we affirm the court's entry of judgment of unenforceability.

BACKGROUND

Nilssen is the inventor on a large number of patents related to electrical lighting products. At issue in this appeal are fifteen of his patents, the first eleven allegedly infringed by Osram and the last four withdrawn shortly before trial: U.S. Patents 4,857,806 ("the '806 patent"); 5,164,637 ("the '637 patent"); 5,233,270 ("the '270 patent"); 5,343,123 ("the '123 patent"); 5,402,043 ("the '043 patent"); 5,416,386 ("the '386 patent"); 5,432,409 ("the '409 patent"); 5,479,074 ("the '074 patent"); 5,481,160 ("the '160 patent"); 5,510,680 ("the '680 patent"); and 5,510,681 ("the '681 patent") (collectively the "patents in suit"); and 4,677,345 ("the '345 patent"); 5,047,690 ("the '690 patent"); 5,189,342 ("the '342 patent"); and 5,341,067 ("the '067 patent"). The patents relate to compact fluorescent light bulbs and to ballasts for gas discharge lamps such as fluorescent light bulbs. A ballast converts the low frequency alternating current power provided by a utility to high frequency alternating current power necessary for the operation of gas discharge lamps.

After initially relying on attorneys to prosecute his patents, in 1983 Nilssen began prosecuting his own patent applications, including those resulting in the patents in suit, because he felt that his understanding of the subject matter was better than that of any attorney. Nilssen was sufficiently knowledgeable of patent law and practice to cite the Manual of Patent Examining Procedure ("MPEP"), patent statutes and regulations, and case law during prosecution of his patent applications.

Nilssen established the Geo Foundation as a not-for-profit charitable organization in the Cayman Islands in 1998. Since June 2000, the Geo Foundation has been the exclusive licensee of Nilssen's patents. Prior to that date, Nilssen licensed at least some of the patents in suit directly to Philips Electronics North America Corp. ("Philips"). Apparently, that license was canceled or revoked, and Geo began sublicensing those patents to Philips following the execution of its exclusive license agreement with Nilssen. The Geo Foundation receives all licensing revenue from the patents and any damages awards or settlements resulting from lawsuits to enforce the patents. It pays all litigation costs associated with those lawsuits, and it pays Nilssen twenty-five percent of its gross income.

Appellants sued Osram in 2000 alleging that electronic ballasts manufactured and sold by Osram infringed eleven of Nilssen's patents. Among the defenses asserted by Osram was that Nilssen had engaged in inequitable conduct in the procurement of

the patents. The district court held a six-day bench trial on Osram's inequitable conduct defenses.

First, the court determined that Nilssen's submission of two affidavits from Dale Fiene, one during reexamination of the '345 patent and one during examination of the application that led to the '690 patent, in support of the patentability of claims rejected by the examiner constituted inequitable conduct because the affidavits failed to disclose Fiene's personal and professional association with Nilssen and Fiene's financial interest in Nilssen's patents. However, the court found that the reference to the '345 patent in the description of the prior art in the '270 and '681 patents and the fact that the three patents share a common parent application did not demonstrate sufficient relatedness among the three patents for the inequitable conduct during prosecution of the '345 patent to also render the '270 and '681 patents unenforceable under what the court referred to as the "doctrine of infectious unenforceability."

Second, the district court considered whether Nilssen's incorrect payment of small entity maintenance fees for the patents in suit constituted inequitable conduct. Nilssen entered into a Compact Fluorescent Lamp Agreement (the "CFLA") with Philips, effective December 7, 1995. The CFLA provided as follows (emphasis added):

> Nilssen *expects to offer* CFL manufacturers a preferential running royalty rate under his CFL patents for a limited time period starting the first quarter of 1996. Nilssen and Philips

> agree that Nilssen *will offer* and Philips *will take* a standard license from Nilssen under his CFL patents at the preferential rate provided that no royalties or payments will accrue under such license until Nilssen has licensed one CFL competitor having at least 10% Dollar share of the U.S. market for CFLs.

The court found that the CFLA covered the '806, '637, '270, '123, '680, and '681 patents Nilssen also entered into a Patent License Agreement ("PLA") with Philips, effective January 1, 1996. The court found that the PLA covered the '806, '637, '043, '386, '409, '074, '160, '680, and '681 patents. Because the court found that these agreements created a license or an obligation to license all of the patents in suit, and Philips had more than 500 employees at all relevant times, the court concluded that Nilssen was obligated to pay large entity maintenance fees on all the patents in suit after December 7, 1995, the date of the CFLA. The court also found that Nilssen had made twenty-one improper small entity payments, including at least one for each patent in suit, compared with eight proper large entity payments. The court did not credit Nilssen's explanation that he did not believe that large entity payments were required for the patents once they were licensed to the nonprofit Geo Foundation in 2000. The court thus concluded that all of the patents in suit were unenforceable for inequitable conduct in failing to pay large entity maintenance fees.

Third, the court found that Nilssen had intentionally misclaimed an effective priority date of March 20, 1978, in the '637, '043, '386, '409, '160,

'680, and '681 patents. The court found that the statutory copendency and/or cross-reference requirements were not satisfied for each of these patents. The court found the false claims material because they allowed Nilssen to potentially avoid prior art. The court based its finding of intent in part on two letters Nilssen sent to a customer, Advance Transformer Co., stating that it might be difficult to obtain effective patent protection for some parts of a new ballast design that might "be considered as representing known art." The court thus concluded that the '637, '043, '386, '409, '160, '680, and '681 patents were unenforceable for inequitable conduct based upon the claims of false effective priority dates.

Fourth, the court considered whether Nilssen's failure to disclose to the examiner ongoing litigation with Motorola rendered some of the patents unenforceable. Nilssen filed a lawsuit against Motorola alleging infringement of six patents on October 19, 1993. Motorola denied infringement, claiming invalidity for anticipation, obviousness, and failure to observe the requirements of 35 U.S.C. § 112. Those claims were dismissed without prejudice on July 23, 1996. A new lawsuit was filed against Motorola alleging infringement of the same six patents plus nine additional Nilssen patents on September 3, 1996. All of the patents involved in those suits pertained to the same general subject matter — electronic ballasts — claimed in the patents in suit. The applications leading to the '123, '043, '386, '409, '074, '160, '680, and '681 patents were pending during the time of the Motorola suits,

but Nilssen failed to inform the examiner of the litigation. The court found that Nilssen intended to mislead the United States Patent and Trademark Office ("PTO") and did not credit Nilssen's testimony that he was unaware of the duty to disclose information concerning the ongoing litigation to the PTO. The court thus concluded that the '123, '043, '386, '409, '074, '160, '680, and '681 patents were unenforceable for inequitable conduct for failing to report the existence of the Motorola litigation to the PTO.

Fifth, the court concluded that Nilssen had engaged in inequitable conduct in the prosecution of the '342 patent and the '067 patent as well as the '806, '043, and '681 patents by failing to identify to the PTO relevant prior art of which he had knowledge. However, the court found that the "descendant relationship" of the '123, '043, '386, '409, and '160 patents to the '342 patent did not render them unenforceable through what it referred to as the "doctrine of infectious unenforceability."

Finally, the court rejected Osram's argument that each of the patents in suit should be held unenforceable under the doctrine of unclean hands.

Appellants timely appealed. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

DISCUSSION

Each of the issues on appeal to this court concerns a determination that a subset of the patents in suit is unenforceable for inequitable conduct.

Prior to our review of the individual allegations, we therefore lay out the general standards for reviewing a holding of inequitable conduct.

> We review a district court's ultimate decision on a claim of inequitable conduct for an abuse of discretion and its threshold findings on materiality and intent for clear error. An abuse of discretion occurs when (1) the court's decision is clearly unreasonable, arbitrary, or fanciful, (2) the court's decision is based on an erroneous construction of the law, (3) the court's factual findings are clearly erroneous, or (4) the record contains no evidence upon which the court rationally could have based its decision. Under the clear error standard, the court's findings will not be overturned in the absence of a "definite and firm conviction" that a mistake has been made.

Impax Labs., Inc. v. Aventis Pharm. Inc., 468 F.3d 1366, 1375 (2006) (citations omitted).

> Applicants for patents have a duty to prosecute patent applications in the Patent Office with candor, good faith, and honesty. A breach of this duty — including affirmative misrepresentations of material facts, failure to disclose material information, or submission of false material information — coupled with an intent to deceive, constitutes inequitable conduct. In determining whether inequitable conduct occurred, a trial court must determine whether the party asserting the inequitable conduct defense has shown by clear and

> convincing evidence that the alleged nondisclosure or misrepresentation occurred, that the nondisclosure or misrepresentation was material, and that the patent applicant acted with the intent to deceive the United States Patent and Trademark Office.

Honeywell Int'l Inc. v. Universal Avionics Sys. Corp., 488 F.3d 982, 999 (Fed. Cir. 2007) (citations omitted).

I. Patents No Longer In Suit

On appeal, appellants argue that the district court erred by ruling four patents no longer asserted against Osram-the '345 patent, the '690 patent, the '067 patent, and the '342 patent-unenforceable. Appellants argue that the district court should have *first* considered whether there was a sufficiently close relationship between the patents in suit and the patents that Osram alleged were unenforceable due to inequitable conduct *before* considering whether the patents not in suit were unenforceable for inequitable conduct. In addition, appellants argue that in the case of the '345 and '690 patents, the Fiene affidavit was not material because the examiner in those applications did not request an affidavit from a disinterested party and Osram failed to demonstrate any error in the affidavit. Osram responds that a patent must be found unenforceable *before* turning to the question whether it taints other related patents. Osram then argues that it would be "impractical" for the district court to evaluate the issues in the order suggested by appellants, but fails

to elaborate on that theory. Osram does not directly address the materiality of the Fiene affidavit.

We conclude that the district court did not abuse its discretion in holding that Nilssen engaged in inequitable conduct with respect to the '345 and '690 patents by submitting affidavits by Fiene in support of patentability, including points of distinction over prior art patents, without informing the examiner of the affiant's relationship to Nilssen. Even though the examiner did not raise a question concerning any such relationship, it is material to an examiner's evaluation of the credibility and content of affidavits to know of any significant relationship between an affiant and an applicant, *see Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1187-88 (Fed. Cir. 2006); failure to disclose that relationship violated Nilssen's duty of disclosure. As for the '067 and '342 patents, appellants do not contest the materiality of the prior art references the district court found were intentionally withheld during their prosecutions. Because inequitable conduct with respect to one or more patents in a family can infect related applications, *see, e.g., Consolidated Aluminum Corp. v. Foseco Int'l Ltd.*, 910 F.2d 804 (Fed. Cir. 1990), we find no abuse of discretion in the district court's holding the '345, '690, '067, and '342 patents unenforceable prior to determining whether the inequitable conduct related to each of those four patents should render additional related patents unenforceable as well. Trial judges are entitled to arrange the priority of issues in a manner that they consider efficient. *Cf. R.R. Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1515 (Fed. Cir. 1984)

("District courts have broad authority and discretion in controlling the conduct of a trial."). Our conclusion to affirm the trial court's holding with respect to the four patents is further supported by the fact that these four patents were withdrawn from the suit only shortly before trial at the last minute. It was not an abuse of discretion for the district court, when these patents were sued upon and maintained in the suit up until just before trial, to hold these four patents unenforceable, even though it did not include them in its entry of judgment.

II. Improper Payment of Small Entity Maintenance Fees

Different facts are relevant to the consideration of the appropriate maintenance fee payments and Nilssen's intent for the time period prior to late 2000 when Nilssen made the agreements concerning his patents and the following time period when Geo began to license Nilssen's patents to others. We therefore treat these two time periods separately.

A. Payments Through Late 2000 (Nilssen Licensing Period)

Certain entities, including "independent inventors," are entitled to pay reduced patent maintenance fees, *see* 35 U.S.C. § 41(h)(1). The relevant PTO regulation defines "independent inventors" as "any inventor who (1) has not . . . licensed, and (2) is under no obligation under contract or law to . . . license, any rights in the invention to any person who could not likewise be classified as an independent inventor . . ., or to any concern which would not qualify as a small business

concern or a nonprofit organization," *see* 37 C.F.R. § 1.9(c) (July 1, 2000).

Appellants argue that the CFLA did not constitute such an obligation to license, so that it did not remove Nilssen from the definition of an independent inventor entitled to pay small entity maintenance fees for the patents included in the agreement. The payments to which this argument applies are the issuance fee for the '681 patent in December 1997, and the four-year maintenance payment for the '270 patent in January 1997. The only patents in suit covered by the CFLA, but not included in the PLA, are the '270 and '123 patents, and no payment was due for the '123 patent during the time period in question. Although it was covered by both the CFLA and the PLA, the issuance fee was paid for the '681 patent in late December of 1995 after execution of the CFLA but before execution of the PLA. Osram responds that the CFLA created an obligation to license Philips within the plain meaning of the regulation, and that whether the obligation had "vested" or not is irrelevant.

We conclude that the district court did not abuse its discretion in holding that the CFLA precluded Nilssen from being eligible to pay small entity fees on the patents covered by that agreement. Interpretation of a contract is a question of law that we review *de novo*. *Carnes Co. v. Stone Creek Mech., Inc.*, 412 F.3d 845, 853 (7th Cir. 2005); *Cyrix Corp. v. Intel Corp.*, 77 F.3d 1381, 1384 (Fed. Cir. 1996). This court reviews a district court's interpretation of agency regulations without deference. *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1357 (Fed. Cir. 2001).

The clear import of the PTO regulation benefiting small entities is to ensure that inventors currently receiving a revenue stream from or reasonably expected to receive a revenue stream from an entity that is not itself entitled to pay small entity fees should not be able to claim that right. While the CFLA first uses the future tense to describe a possible license agreement, stating that Nilssen "will offer" and Philips "will take" a license, it follows up that sentence by providing that "no royalties or payments will accrue under such license until Nilssen has licensed one CFL competitor," indicating that such a license was intended to be a present one but that royalties would not accrue until other conditions were satisfied. We do not believe the district court erred when it interpreted that contract to mean that Nilssen had in effect licensed Philips on December 7, 1995. In fact, the PLA, which unequivocally was a license, was executed less than one month after the CFLA, covering most of the same patents as the CFLA. Obviously the parties considered the CFLA to be at least an agreement, or obligation, to license.

Appellants argue that the payment of small entity maintenance fees for the '806 patent in February of 1997 and for the '160 patent in June of 1999 were simple oversights by Nilssen. Appellants point to the fact that Nilssen made eight large entity maintenance fee payments for seven of the patents in suit between 1996 and 2000 to demonstrate that Nilssen paid large entity fees when he believed they were required. Appellants add that the title of the '806 patent, "Self-Ballasted Screw-In Fluorescent

Lamp," makes it appear upon a superficial examination that the patent relates to a CFL rather than a ballast design that falls within the scope of the PLA. Osram responds that the district court made credibility findings regarding Nilssen's knowledge of the patents covered by the agreements with Philips and that appellants' argument asks this court to overrule the district court's credibility findings, despite the substantial deference we give to such findings.

While a misrepresentation of small entity status is not strictly speaking inequitable conduct in the prosecution of a patent, as the patent has already issued if maintenance fees are payable (excepting an issue fee), it is not beyond the authority of a district court to hold a patent unenforceable for inequitable conduct in misrepresenting one's status as justifying small entity maintenance payments. *Ulead Sys., Inc. v. Lex Computer & Mgmt. Corp.*, 351 F.3d 1139, 1146 (Fed. Cir. 2003). The district court found clear and convincing evidence of "Nilssen's obvious intent to mislead." The court also found Nilssen's exculpability statements "not credible." While an opposite conclusion could have been reached, it is not the function of a court of appeals to override district court judgments on close issues, where credibility findings have been made. Thus, we affirm the district court's holding that the '681, '270, '806, and '160 patents are unenforceable.

B. Payments After Late 2000 (Geo Licensing Period)

Appellants argue that the district court's conclusion that Geo could not be considered a not-for-

profit organization is entirely unsupported because the court cited no law in support of its conclusion and Nilssen gave unrebutted testimony that he relied upon the advice of competent counsel that Geo was a proper nonprofit entity. Appellants thus argue that Nilssen's explanation for paying small entity maintenance fees for the patents licensed by Geo was reasonable. Because the PTO regulations explicitly excluded an inventor who had licensed his patents to a large company from the definition of an "independent inventor" eligible to pay small entity fees, *see* 37 C.F.R. § 1.9(c) (July 1, 2000), but did not explicitly state the same exclusion for a nonprofit organization, *see* 37 C.F.R. § 1.9(e) (July 1, 2000), Nilssen testified that he believed that a nonprofit organization that licensed patents to a large company was still eligible to pay small entity fees. Appellants further argue that the fact that the PTO changed the regulation for nonprofits in late 2000, specifically noting the confusion created by the prior inconsistent definitions, to explicitly exclude nonprofits licensing to large companies, *see* 37 C.F.R. § 1.27(a)(3)(i), demonstrates the prior ambiguity of the regulation. Nilssen also stated that he was simply not aware of the rule change in 2000 because he had continued to rely on a pre-2000 version of the MPEP as his primary reference. In response, Osram argues that the district court did not find Nilssen's testimony credible, particularly as to whether he was unaware of the clarification of the regulation defining a nonprofit organization. Osram also states that the district court properly found Geo to be a "sham," but provides no support for that conclusion.

We agree with Osram that the district court did not abuse its discretion in finding all of the patents in suit unenforceable because Nilssen claimed small entity status after the date Geo licensed[1] the patents in suit. The PTO relies on applicants to accurately represent their fee status, and it is for a fact-finder to evaluate whether any intentional misrepresentations occur in doing so. The district court did not credit Nilssen's testimony that he was aware of the pre-2000 fee regulations, but yet not aware of the clarification of the relevant regulation in 2000. While the PTO's own admission of ambiguity in the regulation prior to 2000, *see* Changes to Implement the Patent Business Goals, 65 Fed. Reg. 54613 (September 8, 2000), may have made a belief that nonprofits were subject to different treatment than independent inventors reasonable during that time frame, we see no clear error in the district court's finding that it was not believable that Nilssen was aware of a specific alleged ambiguity in his favor but ignorant of a change that eliminated the alleged ambiguity shortly thereafter.

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[1] After reviewing the record before us, it is not clear which of the patents in suit were licensed by Geo or to which companies Geo granted licenses following the execution of the Exclusive Master License Agreement with Nilssen. For purposes of this analysis, however, we will assume that the district court found all small entity payments for the patents in suit after June of 2000 to be improper because Geo had licensed the patents to at least one company that did not qualify for small entity status. Appellants do not argue that some of the patents were not licensed to large companies.

We therefore affirm the district court's decision finding that all of the patents in suit are unenforceable due to inequitable conduct in improperly claiming small entity status.

III. Misclaimed Priorities

Appellants argue that our case law establishes a rule that an improper claim to an earlier priority date is only material to patentability if the applicant asserts that earlier date to overcome or exclude prior art. Appellants also argue that it was clear error for the district court to conclude that Nilssen intended to mislead the examiner based upon two letters sent to Advance Transformer Co., a division of Philips, near the time when Nilssen began to cross-reference earlier patent applications. Osram responds that a misrepresentation may still be material even in the absence of reliance by an examiner. Osram also argues that the district court's finding of intent was reasonable in light of Nilssen's change in patent application drafting practice to recite the alleged application histories, together with the two letters indicating a concern about obtaining effective patent protection for newly developed designs.

We agree with Osram that the district court's conclusion that the claims to priority in the '637, '043, '386, '409, '160, '680, and '681 patents constituted inequitable conduct was not an abuse of discretion. It is not necessary for a holding of inequitable conduct that an examiner rely on a claim for priority or that entitlement to an earlier priority be expressly argued in order to overcome prior art. Nilssen recited in his various patent applications

paternity from earlier applications, the obvious purpose of which is to be able to assert a claim for priority over intervening publications or other patent-defeating occurrences if needed. The district court found, and appellants are not contesting, that the recitation of application histories did not comply with the applicable 35 U.S.C. § 120 requirements, and certain applications were thus not entitled to earlier priority dates.

A claim for priority is inherently material to patentability because a priority date may determine validity, whether an issue arises in prosecution or later in court challenges to validity. While an active misrepresentation made during prosecution in order to avoid prior art is no doubt "highly material," *see Li Second Family Ltd. P'shp v. Toshiba Corp.*, 231 F.3d 1373, 1380 (Fed. Cir. 2000), a misrepresentation that would not have immediately affected patentability is still material, *see Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1318 (Fed. Cir. 2006). In addition, we cannot say that the district court's finding that Nilssen's disclosures that his patents were derived from earlier ones were intentional misrepresentations was clearly erroneous given that the district court made credibility determinations. Nilssen's contemporaneous letters stating his concern about securing patent protection for new designs in light of unspecified prior art supported the court's finding. We therefore affirm the district court's conclusion that the '637, '043, '386, '409, '160, '680, and '681 patents are unenforceable for inequitable conduct in misclaiming priority.

IV. Failure to Disclose the Motorola Litigation

Appellants argue that the district court failed to conduct an adequate comparison of the "subject matter" of the patents in the Motorola litigation with the claims of the patents in suit to determine whether Nilssen violated MPEP § 2001.06(c)[2] in failing to bring the litigation to the attention of the examiner. Appellants also argue that even if the existence of the litigation could be considered material to the examination of the patents, Motorola asserted only generalized allegations of invalidity in its case, so the degree of materiality of its litigation to the examination of Nilssen's patent applications was very low. Appellants add that the only evidence of intent to support the district court's decision was its discrediting of Nilssen's testimony that he was unaware of the relevant rule. Osram responds that Nilssen accused the same type of product of infringing his patents in the Motorola litigation as he accuses in this case, that three of the patents in suit

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[2] Section 2001.06(c) of the MPEP (August 1993) provides as follows:

> Where the subject matter for which a patent is being sought is, or has been involved in litigation, the existence of such litigation and any other material information arising therefrom must be brought to the attention of the Patent and Trademark Office; such as, for example, evidence of possible prior public use or sales, questions of inventorship, prior art, allegations of "fraud," "inequitable conduct," and "violation of duty of disclosure." Such information might arise during litigation in, for example, pleadings, admissions, discovery including interrogatories, depositions, and other documents, and testimony.

are direct descendents of patents asserted in the Motorola litigation, and that all of the patents in suit and the patents asserted in the Motorola litigation relate to the same general subject matter. Osram also argues that the district court was correct to find the litigation highly material and that § 2001.06(c) was adjacent in the MPEP to provisions with which Nilssen was admittedly familiar.

We conclude that the district court did not abuse its discretion in holding eight patents unenforceable for inequitable conduct based upon Nilssen's failure to disclose the Motorola litigation. It is clear from the language of § 2001.06(c) that the existence of the litigation itself is material information that an examiner needs to have. It is important because it signals the examiner that other material information relevant to patentability may become available through the litigation proceedings. The PTO obviously considers such information material and there is no basis for us to conclude otherwise. We therefore affirm the district court's holding that the '123, '043, '386, '409, '074, '160, '680, and '681 patents are unenforceable for inequitable conduct in failing to disclose the Motorola litigation.

V. Failure to Disclose Prior Art

Appellants argue that the district court's finding that U.S. Patent 4,266,134 (the "Franke patent") was highly material to the prosecution of the '806 patent was clearly erroneous because the claims of the '806 patent referenced by the district court require a "gas discharge lamp" and a "screw base" small enough to fit a standard lamp socket whereas the Franke

patent concerns an X-ray device. Appellants further argue that the PTO Board of Patent Appeals and Interferences found during the prosecution of a different Nilssen patent application that the Franke patent does not reasonably suggest connecting its inverter circuitry to a gas discharge lamp and called this oversight by the examiner "glaring." Next, appellants argue that the district court failed to explain how Nilssen should have known of the materiality of the reference allegedly withheld during prosecution of the '681 patent—U.S. Patent 4,251,752 (the "Stolz patent")—or the references allegedly withheld during prosecution of the '043 patent—U.S. Patents 4,045,711 (the "Pitel patent"); 4,461,980; and 4,053,813 (the "Kornrumpf patent") —and thus acted with intent to withhold them. Osram responds that the district court was entitled to rely on testimony from its expert that inverters are not limited to a particular type of application and that one of ordinary skill in the art would apply the teachings of the Franke patent to a gas discharge lamp. Osram also points to the high degree of materiality of the references and the fact that each was repeatedly cited to Nilssen by PTO examiners during the prosecution of various of his patents.

We agree with Osram that the district court's findings regarding the references withheld by Nilssen were not clearly erroneous. "Information is material if there is a substantial likelihood that a reasonable examiner would have considered the information important in deciding whether to allow the application to issue as a patent." *Honeywell,* 488 F.3d at 1000 (internal quotations omitted). The fact

that Nilssen had repeatedly cited or had cited to him the prior art references in question makes it highly likely that a reasonable examiner would have wanted to consider the information in the withheld patents in determining patentability. Given that these material references were repeatedly before Nilssen, and his failure to offer any good faith explanation for withholding them other than mere oversight, we find an inference that Nilssen intended to deceive the PTO not unreasonable. We therefore affirm the district court's conclusion that the '806, '043, and '681 patents are unenforceable for inequitable conduct in the withholding of material prior art references during their prosecution.

A few closing comments are in order. Each of the issues on which the district court found inequitable conduct generated defenses by Nilssen that were not per se unreasonable when considered in isolation. The CFLA was not beyond an interpretation contrary to what the district court adopted. Nilssen did pay some fees that were large entity fees. Failure to cite the Motorola litigation to the PTO may have been an oversight, as perhaps failure to cite prior art might have been. Perhaps Nilssen did not expressly assert an unjustified earlier priority date to obviate prior art.

However, this case presents a collection of such problems, which the district court evaluated thoroughly and considered, including making credibility findings, and it concluded that the record and testimony indicated repeated attempts to avoid playing fair and square with the patent system. Mistakes do happen, but inadvertence can carry an

applicant only so far. Thus, we cannot find that the court's holding of unenforceability was an abuse of discretion. Perhaps some of the errors were attributable to Mr. Nilssen's representing himself during the prosecution of his patents. It surely was true that he knew more about the subject matter of his inventions than most, or even any, attorney. That is almost always the case with an invention, particularly one dealing with complex subject matter. However, the patent process is a complicated one, one that requires both technical and legal credentials in order to effectively prosecute patents for inventors. The same credentials are generally required to prosecute patents on one's own inventions. Mr. Nilssen, while apparently gaining considerable knowledge of the patenting process, thought he didn't need professional patent help. The result of this case, regrettably, proves that he was wrong.

CONCLUSION

For the reasons stated, we affirm the district court's holding that the '806, '637, '270, '123, '043, '386, '409, '074, '160, '680, '681, '345, '690, '067, and '342 patents are unenforceable.

AFFIRMED.

Appendix B

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION.

OLE K. NILSSEN and GEO FOUNDATION, LTD.,
Plaintiffs,
v.
OSRAM SYLVANIA, INC. and OSRAM SYLVANIA PRODUCTS, INC., Defendants.

No. 01 C 3585.

July 5, 2006.

AMENDED OPINION AND ORDER

Plaintiffs, Ole K. Nilssen and the GEO Foundation, Ltd., bring this action against Defendants, Osram Sylvania, Inc. and Osram Sylvania Products, Inc., for the alleged infringement of several patents. Plaintiffs originally alleged that Defendants infringed twenty-six patents. Subsequently, Plaintiffs withdrew infringement allegations for fifteen of the twenty-six patents. The eleven remaining patents in suit are United States Patent Nos. 4,857,806 (the "'806 Patent"); 5,164,637 (the "'637 Patent"); 5,233,270 (the "'270 Patent"); 5,343,123 (the "'123 Patent"); 5,402,043 (the "'043 Patent"); 5,416,386 (the "'386 Patent"); 5,432,409

(the "'409 Patent"); 5,479,074 (the "'074 Patent"); 5,481,160 (the "'160 Patent"); 5,510,680 (the "'680 Patent"); and 5,510,681 (the "'681 Patent").

Defendants answered, denying infringement, and filed a counterclaim for declaratory judgment, alleging that the patents have not been infringed by Defendants and that the patents in suit are unenforceable because Nilssen engaged in five types of inequitable conduct: (1) submitted misleading affidavits to the Patent and Trademark Office ("PTO"); (2) improperly claimed and paid fees as a small entity; (3) improperly claimed priority dates in several patent applications; (4) failed to disclose litigation against Motorola, Inc. during the prosecution of patents in suit that involved the same subject matter as the patents at issue in the Motorola litigation; (5) failed to disclose material prior art references to the PTO during the prosecution of several patent applications; and (6) based on Plaintiffs' inequitable conduct, Plaintiffs' infringement action is barred by the doctrine of unclean hands.

Trial of the inequitable conduct issues was by the Court without a jury.[1] During the six-day trial, the parties presented over four hundred exhibits and testimony of seven witnesses, including four expert witnesses. The parties also submitted extensive post-trial written arguments and proposed findings of facts and conclusions of law.

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[1] There is no right to a jury trial as to inequitable conduct. *See Paragon Podiatry Lab., Inc. v. KLM Labs., Inc.*, 984 F.2d 1182, 1190 (Fed. Cir. 1993).

Pursuant to Federal Rule of Civil Procedure 52, the Court enters the following written Findings of Fact and Conclusions of Law, which are based upon consideration of all the admissible evidence and this Court's own assessment of the credibility of the trial witnesses. To the extent, if any, that Findings of Fact, as stated, may be considered Conclusions of Law, they shall be deemed Conclusions of Law. Similarly, to the extent, if any, that Conclusions of Law, as stated, may be considered Findings of Fact, they shall be deemed Findings of Fact. The several claims of inequitable conduct present common questions of law and fact. However, some raise distinct legal and factual issues. Therefore, the Decision section of this Opinion and Order, for purposes of clarity, contains some reference to law and facts. To the extent, if any, that any part of the Decision may be considered Findings of Fact or Conclusions of Law, they shall be so deemed.

FINDINGS OF FACT

Nilssen's Background

Nilssen, who resides in Illinois, is a citizen of Norway. Nilssen earned a bachelors degree in electronic engineering from the University of Wisconsin in 1952 and earned a masters degree in electrical engineering from the University of Wisconsin in 1953. Nilssen was employed by Fyrnetics, Inc., at which time he met Dale Fiene. Nilssen has at least 241 U.S. Patents issued in his name. These patents relate, in large part, to electronic lighting products, such as electronic

ballasts, track lighting, and compact fluorescent screw-in lamps. Nilssen holds himself out as an expert in the field of electronic ballasts.

Nilssen originally hired registered patent attorneys to draft and prosecute his patent applications. In 1983, Nilssen assumed the prosecution of his pending patent applications and began drafting and prosecuting his patent applications, *pro se*. Nilssen considers himself an expert in the prosecution of patents and prosecuting his patent applications, *pro se,* because he believes that he understands the subject matter "far better than any attorney." Nilssen estimates that as a *pro se* applicant, he has prosecuted over 1,000 patent applications. Nilssen also prosecuted, *pro se,* appeals before the Board of Patent Appeals and the Federal Circuit. As a *pro se* applicant and appellee, Nilssen regularly cites to the Manual of Patent Examining Procedure ("MPEP"), case law, and patent statutes and regulations. Nilssen prosecuted the applications for the twenty-six patents (now eleven) involved in the present lawsuit, *pro se.* Nilssen is listed on these patents as the sole inventor. With each patent application, Nilssen signed a declaration attesting, under oath, that he understood the duty to disclose material information and that he had complied with this duty. Nilssen is knowledgeable regarding patent law and patent examining procedure.

(1) Affidavits Submitted to the PTO

Dale Fiene began working for Nilssen as a technical expert in the late 1980's. Fiene had met

Nilssen while they both were employed by Fyrnetics. Fiene and Nilssen share an office in Barrington, Illinois. Fiene owns his own company, International Product Development, or IPD. Since its inception in 1989, Fiene has been the sole officer, shareholder, and employee of IPD. In 1989, Nilssen entered an agreement with Fiene and an agreement with IPD. The agreement with IPD provides that Nilssen would pay IPD $20,000 per quarter for various technical assistance. The agreement between Nilssen and Fiene is a contingency contract in which Nilssen agreed to pay Fiene a percentage of all the licensing revenue and litigation settlements related to Nilssen's patents up to a maximum of $500,000 (adjusted for inflation from 1989). From 1989 through 2001, Nilssen paid Fiene over $1.5 million. Nilssen continues to pay IPD $20,000 per quarter (adjusted for inflation from 1989). In addition, pursuant to a 2001 contract, Fiene receives 20 percent of all royalties Nilssen receives from the Geo Foundation.

The '345 Patent

In June 1987, U.S. Patent No. 4,677,345 (the "'345 Patent") was issued to Nilssen.[2] Subsequently, Motorola requested that the PTO re-examine the '345 Patent. Motorola's request was granted in February 1990. In November 1990, the PTO issued an office action rejecting thirty of the forty-one claims in the '345 Patent. In January 1991, Nilssen submitted his own affidavit and an affidavit of Fiene

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[2] The '345 Patent is no longer a patent in suit but is relevant because of claimed infectious enforceability, as discussed later.

in support of arguments for patentability in an effort to overcome the rejections by the PTO examiner. Nilssen typed Fiene's affidavit. Fiene's affidavit did not disclose that Fiene had a financial interest in Nilssen's electronic ballast patents, including the '345 Patent under re-examination, or that he had a professional relationship with Nilssen, dating back to 1978. Fiene's affidavit did include his history of working at Fyrnetics. Nilssen relied upon Fiene's affidavit in his January 1991 response to the PTO to distinguish two other patents—U.S. Patent Nos. 3,263,122 (Genuit) and 4,100,476 (Ghiringhelli)—from the '345 Patent.[3] At this time, Nilssen advised the PTO examiner: "To help analyze and evaluate the issues under dispute . . . the Patent Owner solicited the assistance of two experts in the area directly pertinent to the ['345] patent under reexamination as to the cited patents." In another submission to the PTO, Nilssen stated: "In any rational administrative procedure, an expert's (i.e., Mr. Fiene's) interpretation of facts must prevail over the interpretation of facts by a non-expert (i.e., Examiner)."

Nilssen's affidavit did not disclose that Fiene had a financial interest in Nilssen's electronic ballasts, including the '345 Patent under reexamination. Nilssen's affidavit did not include references to

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[3] The "Description of Prior Art" in the "Background of the Invention" of the '270 and '681 Patents state: "For a description of pertinent prior art, reference is made to [the '345 Patent] to Nilssen . . ." Additional prior art referenced in the '681 and '270 Patents includes U.S. Patent Nos. 3,263,122 (Genuit) and 4,100,476 (Ghiringhelli).

Nilssen's prior work with Fyrnetics. Affidavits Nilssen previously filed in 1988 and 1989 had included specific disclosure of Nilssen's relationship with Fyrnetics. Although Nilssen had met Fiene while Fiene was employed at Fyrnetics, Fiene's affidavit did not disclose this information.

The '690 Patent

In October 1990, Nilssen filed an application for the '690 Patent. On March 27, 1991, the PTO issued an office action rejecting all eighteen of Nilssen's original claims in the application that issued as the '690 Patent. In April 1991, Nilssen filed a response to the PTO's rejection. Nilssen included an affidavit from Fiene, executed April 1, 1991, in support of arguments for patentability. Fiene's April 1991 affidavit did not disclose to the PTO that Fiene had a financial interest in Nilssen's electronic ballast patents, including the '690 Patent. Fiene's affidavit also failed to disclose that Fiene had a professional relationship with Nilssen, dating back to 1978. Nilssen typed Fiene's April 1991 affidavit.

(2) Small Entity Fee Claims and Payments

A patentee is required to pay an initial fee and subsequent maintenance fees for the term of the patent to prevent expiration of the patent. The PTO allows "small entities"—defined in C.F.R. 1.9(f) as independent inventors, small business concerns, and nonprofit organizations—to pay reduced fees than that of a "large entity."

Nilssen made specific large entity maintenance fee payments for certain patents, as follows:

Year	Patent(s)	Fee Paid
1996	'637	Four-year maintenance
1998	'043, '386	Four-year maintenance
1999	'409, '074, '680, '681	Four-year maintenance
2000	'637	Eight-year maintenance

Nilssen made specific **small entity claims and maintenance fee payments** for certain patents, as follows:

Patent	Month/ Year	Small Entity Status	Small Entity Fee Paid
'806	February 1997	Claimed	Eight-year maintenance
	January 2001		Twelve-year maintenance
'270	January 1997	Claimed	Four-year Maintenance
	January 2001	Claimed	Eight-year maintenance
	January 2005	Claimed	Twelve-year maintenance

Patent	Month/ Year	Small Entity Status	Small Entity Fee Paid
'690	March 1999	Claimed	
	June 1999		Eight-year maintenance
	March 2003		Twelve-year maintenance
'160	June 1999	Claimed	Four-year maintenance
	June 2003	Claimed	Eight-year maintenance
'210	August 1999	Claimed	Issue fee
	June 2003	Claimed	Four-year maintenance
'356	November 2000	Claimed	Eight-year maintenance
	November 2004	Claimed	Twelve-year maintenance
'891	September 2001	Claimed	Four-year maintenance
'067	February 2002		Eight-year maintenance
	March 2002	Claimed	
'123	March 2002	Claimed	Eight-year maintenance
'043	September 2002		Eight-year maintenance

Patent	Month/ Year	Small Entity Status	Small Entity Fee Paid
	October 2002	Claimed	
'386	October 2002 November 2002	Claimed	Eight-year maintenance
'409	December 2002 January 2003	Claimed	Eight-year maintenance
'074	February 2003 June 2003	Claimed	 Eight-year maintenance
'680	February 2003 October 2003	Claimed	 Eight-year maintenance
'681	February 2003 October 2003	Claimed	 Eight-year maintenance
'118	February 2003	Claimed	Eight-year maintenance
'347	February 2003	Claimed	Eight-year maintenance
'637	May 2004	Claimed	Twelve-year maintenance
'342	August 2004	Claimed	Twelve-year maintenance

The Geo Foundation

In 1998 Nilssen established the Geo Foundation, Inc., in the Cayman Islands. The Geo Foundation holds Nilssen's patents under an exclusive license. The Geo Foundation does not conduct any business other than licensing and litigating Nilssen's patents. All of Nilssen's licensing revenues and lawsuit settlements are paid directly to the Geo Foundation. The Geo Foundation pays Nilssen 25 percent of its gross income. The Geo Foundation also pays all of the litigation costs associated with the patent lawsuits. All of the Geo Foundation's funds are held in a bank in Connecticut. The Geo Foundation has only one active director, Lars Evensen. Evensen lives in Norway and is Nilssen's nephew. Neither Nilssen nor Evensen has ever been to the Cayman Islands.

The Geo Foundation was established as a not-for-profit charitable organization. From its establishment in 1998 up until December 20, 2005, the Geo Foundation had not made a single charitable contribution. The Geo Foundation has never filed a tax return or paid any income tax.

The stated goals of the Geo Foundation, as set by Nilssen, include the "development and establishment of a totally inflation-proof, fully-backed international currency system"; sovereign jurisdiction to assure that individuals' and corporations' "productive output [cannot be] forcibly taken by some governmental body"; and maintenance of class action lawsuits against the United States "seeking abolishment of the involuntary servitude to which a

Small Class of high productivity U.S. Citizens (e.g., the upper 5% of all income tax payers) is presently subjected by virtue of the fact that a large part of the income of this Small Class is forcibly taken . . . and given to another very Large Class of U.S. Citizens (e.g., the lower 50% of all income tax payers . . .)."

The Geo Foundation's 1999 Overview disclosed that its goal was to preserve the wealth of the wealthy. In addition, the Geo Foundation follows the "Rose Law" — "a fact cannot be changed by giving it another name." The Geo Foundation interprets national laws and government actions under the Rose Law — "not recognizing as legitimate a government's natural tendency to legalize actions and practices . . . which are clearly illegal under more basic laws . . . for instance . . ." taxes are illegal under the Takings Clause of the U.S. Constitution.

Patent Licenses

Nilssen entered into an agreement, the Compact Fluorescent Lamp Agreement ("CFL Agreement"), with Philips Electronics North America Corp., effective December 7, 1995. The CFL Agreement provides, in part: "Nilssen expects to offer CFL manufacturers a preferred running royalty rate under his CFL patents for a limited period starting the first quarter of 1996. Nilssen and Philips agree that Nilssen will offer and Philips will take a standard license from Nilssen under his CFL patents...." The CFL Agreement obligated Nilssen to license at least the following patents to Philips: the '806, '637, '356, '270, '067, '123, '347, '680, '681, and '201 Patents. Because Nilssen had an obligation to

license to Philips, all of the patents subject to the CFL Agreement were not entitled to a small entity status and required payment of large entity fees.

Nilssen entered into a Patent License Agreement with Philips in January 1996. Philips employed more than 500 persons from December 7, 1995 to present. The Patent License Agreement obligated Nilssen to license at least the following patents to Philips: the '806, '690, '637, '342, '356, '067, '043, '386, '409, '347, '118, '074, '160, '680, '681, '819, and '210 Patents. Because of the Patent License Agreement with Philips as to these patents, Nilssen was not entitled to claim small entity status or pay small entity fees as to these patents.

(3) Claimed Priority Dates

A patent applicant may claim priority back from a later application to an earlier patent in order to obtain the benefit of the filing date of the earlier application. There are four requirements to claiming an earlier priority date: (1) the earlier description must have a written description of the invention and must have an enablement of the invention within it; (2) at least one of the inventors in each of the applications must be in common; (3) there must be copendency; and (4) there must be a cross reference of the applications, including their status as continuing, divisional or a continuation-in-part in the specification that is seeking the benefit.[6]

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[6] More detailed discussions of priority dates and of these related terms are included in the Conclusions of Law and Decision sections of this Opinion and Order.

The '409, '160, '386, '043, '118, and '819 Patents are "children" of the '342 Patent. The '342 Patent was filed on February 25, 1992, and was issued on February 23, 1993. The '342 Patent claims to be a continuation of U.S. Patent Application No. 07/646,497, which it claims is a continuation of U.S. Patent Application No. 07/107,795, which it claims is a continuation-in-part of U.S. Patent Application No. 06/658,423, filed October 5, 1984. The '342 Patent and its parent applications do not claim priority to or cross reference any patents or patent applications earlier than Nilssen's U.S. Patent Application No. 06/658,423, filed October 5, 1984. However, in the '409, '160, '386 and '043 Patents, Nilssen claims priority to U.S. Patent No. 4,184,128 ("'128 Patent") to obtain an effective filing date of March 20, 1978. For the '409, '160, '386, and '043 Patents to have this effective filing date of March 20, 1978, the parent applications of the '409, '160, '386, and '043 Patents would have to specifically reference the '128 Patent and have been copending.

Nilssen's claim of priority to the effective filing date of March 20, 1978, in the '409, '160, '386, and '043 Patents was incorrect because the respective parent applications filed between 1984 and 1992 do not claim priority to or cross reference any patents or patent applications earlier than Nilssen's U.S. Patent Application No. 06/658,423, filed October 5, 1984. Nilssen's claim of priority to the effective filing date of March 20, 1978, in these patents is also incorrect because these patents rely on the incorrect assertion by Nilssen that U.S. Patent Application No. 06/658,423 is a continuation-in-part of U.S.

Patent Application No. 06/555,426. U.S. Patent Application No. 06/555,426 was previously abandoned when the PTO granted Nilssen's requested file wrapper continuation on August 27, 1984. Accordingly, U.S. Patent Application No. 06/658,423, filed October 5, 1984, cannot be a continuation-in-part of U.S. Patent Application No. 06/555,426, abandoned August 27, 1984, because the two applications were not copending at any point in time.

Lawrence J. Goffney, Jr., Defendants' expert on patent issues, was: from 1996 through 1998, Acting Deputy Assistant Secretary of Commerce and United States Patent and Trademark Office Deputy Commissioner of Patents and Trademarks; from 1994 through 1998, was Assistant Commissioner for Patents; and from 1984 through 1986, a patent examiner in the PTO. Nilssen's improper claim of priority to the effective date of March 20, 1978 was material to applications issuing as the '409, '160, '386, and '043 Patents because it allowed Nilssen to potentially avoid prior art and obtain patent claims to which he would not otherwise be entitled. This is based, in part, on Goffney's testimony, which was highly credible and unimpeached.

The '637, '680, and '681 Patents are "children" of U.S. Patent Application No. 06/787,692. U.S. Patent Application No. 06/787,692 was filed October 15, 1985, and abandoned September 30, 1991. U.S. Patent Application No. 06/787,692 claimed to be a continuation of U.S. Patent Application No. 06/644,155, which it claimed was a continuation of U.S. Patent Application No. 06/555,426, which it

claimed was a continuation of U.S. Patent Application No. 06/178,107, filed August 14, 1980. The U.S. Patent Application No. 06/787,692 and its parent applications do not claim priority to or cross reference any patents or patent applications earlier than Nilssen's U.S. Patent Application No. 06/178,107, filed August 14, 1980. In the '637, '680, and '681 Patents, however, Nilssen claims priority to the '128 Patent to obtain an effective date of March 20, 1978.

The parent applications of the '637, '680, and '681 Patents would have to include a specific reference to the '128 Patent to permit the '637, '680, and '681 Patents to claim the '128 Patent priority date of March 20, 1978. Nilssen's claim of priority to the effective filing date of March 20, 1978, in the '637, '680, and '681 Patents is, therefore, incorrect because the respective patent applications filed between 1980 and 1990 do not claim priority to or cross reference any patents or patent applications earlier than Nilssen's U.S. Patent Application No. 06/178,107, filed August 14, 1980. Goffney testified that, in his opinion, Nilssen's incorrect claim of priority to the effective date of March 20, 1978 was material to the prosecution of the applications issuing as the '637, '680, and '681 Patents, at least at the time he filed the applications, because it would allow Nilssen to potentially avoid prior art and obtain patent claims to which he would not otherwise be entitled. Again, this testimony was highly credible and unimpeached.

(4) Nondisclosure of Motorola Litigation

On October 19, 1993, Nilssen filed a lawsuit against Motorola in the United States District Court for the Northern District of Illinois. Nilssen alleged that Motorola infringed U.S. Patent Nos. 5,191,262; 5,214,356; 5,013,974; 5,164,637; 5,047,690; and 5,185,560. Motorola denied the claims, alleging that the patents were invalid because they failed to meet the conditions of patentability and failed to comply with the requirements of 35 U.S.C. §§ 102 (novelty requirement and loss of right), 103 (obviousness), and 112 (specification requirements). On July 23, 1996, the patent claims in the Motorola lawsuit were dismissed without prejudice. On September 3, 1996, Nilssen refiled a lawsuit against Motorola, alleging infringement of the same six patents and adding infringement allegations for nine additional U.S. Patents, Nos. 4,819,146; 4,857,806; 5,189,342; 5,214,356; 5,341,067; 5,402,043; 5,416,386; 5,432,409; and 4,677,345.

Eight of the patents at issue here were pending during the Motorola litigation, as follows: the '123 Patent, filed August 24, 1992, and issued August 30, 1994; the '043 Patent, filed September 23, 1993 and issued March 28, 1995; the '386 Patent, filed May 10, 1993, and issued May 16, 1995; the '409 Patent, filed February 2, 1994, and issued July 11, 1995; the '074 Patent, filed December 21, 1992, and issued December 26, 1995; the '160 Patent, filed October 28, 1994, and issued January 2, 1996; the '680 Patent, filed December 21, 1992, and issued January 2, 1996; and the '681 Patent, filed April 15, 1994, and issued April 23, 1996.

All of Nilssen's patents represent a common end product — electronic ballasts. The '123, '074, and '681 Patents are direct descendants of patents asserted by Nilssen in his lawsuit against Motorola. The '123 Patent is a continuation-in-part of the '637 Patent asserted in the Motorola litigation. U.S. Patent 5,185,560 ("'560 Patent") is a "great grandparent" of the '123 Patent. The '560 Patent is also a "grandparent" of the '074 Patent, related through a continuation-in-part application and a divisional application. The '560 Patent is also a "grandparent" of the '681 Patent, related through a file wrapper continuation and a continuation-in-part application.

Nilssen did not disclose the pending Motorola litigation during the prosecution of the applications that issued as the '123, '043, '386, '409, '074, '160, '680, and '681 Patents in suit.[7] The '123, '043, '386, '409, '074, '160, '680, and '681 Patents are directed towards the same subject matter as the patents asserted by Nilssen in the Motorola litigation, based in part, on the expert opinion of Goffney.

(5) Nondisclosure of Prior Art References

U.S. Patent No. 4,251,752 ("Stolz Patent"), filed May 7, 1979, and issued February 17, 1981, constitutes prior art to the '681 Patent, pursuant to 35 U.S.C. § 102, and was not cumulative of the prior

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[7] Nor did Nilssen disclose the existence of the Motorola litigation then pending during the prosecution of the applications of the '067, '347, '118, '819, and '210 Patents, for which allegations of infringement have been withdrawn in this suit.

art made of record during the prosecution of the application that issued as the '681 Patent. Nilssen had knowledge of the Stolz Patent, as demonstrated by citation to the Stolz Patent as prior art by Nilssen or patent examiners on at least twenty-five occasions in ten of Nilssen's other patent applications prior to the '681 Patent's being issued. Seven of the twenty-five references to the Stolz Patent as prior art occurred concurrently with the prosecution of the application that issued as the '681 Patent. The Stolz Patent was material to the patentability of claims in the application that issued as the '681 Patent because a reasonable examiner would have considered this reference important in presenting a *prima facie* case of anticipation for at least claims 6, 7, and 8 of the '681 Patent. The PTO had found a substantial new question of patentability and granted reexamination of the '681 Patent based, in part, on the Stolz Patent, further confirming its materiality. Nilssen failed to disclose the Stolz Patent during the application that issued as the '681 Patent.

Nilssen also failed to disclose the Stolz Patent during the prosecution of the application that issued as the '067 Patent and was not cumulative of the prior art made of record during the prosecution of the application that issued as the '067 Patent. Nilssen had knowledge of the Stolz Patent because it was cited as prior art by Nilssen or patent examiners on at least eighteen occasions in eight of Nilssen's other patent applications before the '067 Patent was issued. The Stolz Patent was material to the patentability of claims in the application that issued

as the '067 Patent because claims 4, 21 and 32 of the '067 Patent have been found to be invalid over the Stolz Patent.

U.S. Patent No. 4,045,711 ("Pitel Patent"), filed on March 19, 1976, and issued on August 30, 1997, constitutes 35 U.S.C. § 102 prior art to the '043 Patent and was not cumulative of the prior art made of record during the prosecution of the application that issued as the '043 Patent. Nilssen had knowledge of the Pitel Patent because it was cited as prior art by Nilssen and patent examiners on at least thirty occasions in eight of Nilssen's other patent applications before the '043 Patent was issued. Three of the thirty references to the Pitel Patent as prior art occurred concurrently with the prosecution of the '043 Patent. The Pitel Patent was material to the patentability of claims in the application that issued as the '043 Patent because a reasonable examiner would have considered this reference important in presenting a *prima facie* case of anticipation for at least claim 18 of the '043 Patent. Nilssen failed to disclose the Pitel Patent during the application that issued as the '043 Patent.

U.S. Patent No. 4,461,980 ("Nilssen Patent"), filed on August 25, 1982, and issued on July 24, 1984, constitutes 35 U.S.C. § 102 prior art to the '043 Patent and was not cumulative of the prior art made of record during the prosecution of the application that issued as the '043 Patent. Nilssen, as the sole inventor and prosecutor of the Nilssen Patent, had knowledge of the patent. In addition, the Nilssen Patent was cited as prior art by Nilssen and patent examiners on at least sixteen occasions in eight of

Nilssen's other patent applications before the '043 Patent was issued. The Nilssen Patent was material to the patentability of claims in the application that issued as the '043 Patent because a reasonable examiner would have considered this reference important in presenting a *prima facie* case of anticipation for at least claim 18 of the '043 Patent. Nilssen failed to disclose the Nilssen Patent during the application that issued as the '043 Patent.

U.S. Patent No. 4,053,813 ("Kornrumpf Patent"), filed on March 1, 1976, and issued on October 11, 1997, constitutes 35 U.S.C. § 102 prior art to the '043 Patent. The Kornrumpf Patent was not cumulative of the prior art made of record during the prosecution of the application that issued as the '043 Patent. Nilssen had knowledge of the Kornrumpf Patent because it was cited as prior art by Nilssen and patent examiners on at least eight occasions in six of Nilssen's other patent applications before the '043 Patent was issued. Two of the eight references to the Kornrumpf Patent as prior art occurred concurrently with the prosecution of the '043 Patent. The Kornrumpf Patent is material to the patentability of the claims in the application that issued as the '043 Patent because a reasonable examiner would have considered this reference important in presenting a *prima facie* case of anticipation for at least claim 18 of the '043 Patent. The PTO had found a substantial new question of patentability and granted reexamination of the '043 Patent based on the Kornrumpf Patent. On December 15, 2005, the PTO issued an Office Action during the reexamination of the '043 Patent, rejecting claim 18 under 35 U.S.C.

§ 102(b) as anticipated by the Kornrumpf Patent. Nilssen failed to disclose the Kornrumpf Patent during the application that issued as the '043 Patent.

U.S. Patent No. 4,266,134 ("Franke Patent"), filed on December 13, 1978, and issued on May 5, 1981, constitutes 35 U.S.C. §§ 102 or 103 prior art to the '806 Patent and was not cumulative of the prior art made of record during the prosecution of the application that issued as the '806 Patent. Nilssen had knowledge of the Franke Patent because it was cited as prior art by Nilssen or patent examiners on at least three occasions in another of Nilssen's patent applications before the '806 Patent was issued. One of the three references to the Franke Patent as prior art occurred concurrently with the prosecution of the '806 Patent. The Franke Patent was material to the patentability of claims in the application that issued as the '806 Patent because a reasonable examiner would have considered this reference important in presenting a *prima facie* case of anticipation for at least claims 5 and 6 of the '806 Patent. Nilssen failed to disclose the Franke Patent during the application that issued as the '806 Patent.

U.S. Patent No. 4,392,087 ("Zansky Patent"), filed on November 26, 1980, and issued on July 5, 1983, constitutes 35 U.S.C. § 102 prior art to the '342 Patent and was not cumulative of the prior art made of record during the prosecution of the application that issued as the '342 Patent. Nilssen had knowledge of the Zansky Patent because it was cited as prior art by Nilssen and patent examiners on at least twelve occasions in ten of Nilssen's other patent applications before the '342 Patent was issued.

Three of the twelve references to the Zansky Patent as prior art occurred concurrently with the prosecution of the '342 Patent. The Zansky Patent was material to the patentability of claims in the application that issued as the '342 Patent because a reasonable examiner would have considered this reference important in presenting a *prima facie* case of anticipation for at least claims 3, 14 and 15 of the '342 Patent. The PTO had found a substantial new question of patentability and granted reexamination of the '342 Patent based, in part, on the Zansky Patent. Nilssen failed to disclose the Zansky Patent during the application that issued as the '342 Patent.

Nilssen kept a "special file" in his office of prior art that was frequently cited by PTO examiners. The special file included the Stolz, Pitel and Zansky Patent references.

(6) "Unclean Hands"

On numerous occasions, Nilssen inappropriately criticized patent examiners and the Board of Appeals. For example, in his petition to the Commissioner, Appeal No. 07/107,765, Nilssen stated that he "finds subject Examiner to be not only incompetent with respect to the particular subject matter of the various claimed inventions, but also seriously lacking in the basic mental facilities needed to properly perform his assigned role." In another petition to the Commissioner, Nilssen stated:

> a) Mr. Dixon cannot be characterized as being skilled in the arts to which subject applications pertain . . .

b) Mr. Dixon is severely deficient in his understanding and use of reason and logic . . .

c) Mr. Dixon has an inadequate command of the English language . . .

d) Mr. Dixon has repeatedly shown himself to be overtly non-cooperative and non-caring.

On several occasions, the PTO returned submitted papers to Nilssen, without consideration, for Nilssen's failure to conduct business with the PTO with "Decorum and Courtesy" in violation of 37 C.F.R. 1.3.

The PTO had informed Nilssen that he had submitted defective oaths because the oath submitted failed to include the phrase "in accordance with 37 C.F.R. 1.56(a)," as required by 37 C.F.R. 1.63(b)(3). In 1988, while prosecuting the '795 Patent application, the patent examiner referred Nilssen's application to the Office of the Assistant Commissioner of Patents (also known as the "fraud squad") for "further consideration of the issues relating to the duty of disclosure." In January 1989, the Office of the Assistant Commissioner of Patents informed Nilssen that the investigation regarding the duty of disclosure issue related to the '795 Patent application was terminated because the Office of the Assistant Commissioner of Patents was no longer examining patent applications for compliance with 37 C.F.R. § 1.56.

CONCLUSIONS OF LAW

The Court has federal jurisdiction pursuant to 28 U.S.C. § 1338(a), and venue is proper pursuant to 28 U.S.C. § 1391.

All patent applicants have an affirmative duty to prosecute patents in the PTO with candor and good faith. *See* 37 C.F.R. § 1.56(a). The duty of candor extends throughout the entire prosecution history of the patent. *See Fox Indus., Inc. v. Structural Preservation Sys., Inc.*, 922 F.2d 801, 803 (Fed. Cir. 1990) (*Fox*). Inequitable conduct occurs when a patentee breaches his or her duty to the PTO of "candor, good faith, and honesty." *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1178 (Fed. Cir. 1995) (*Molins*). This conduct includes "affirmative misrepresentations of material fact, failure to disclose material information, or submission of false material information, coupled with an intent to deceive." *Molins*, 48 F.3d at 1178.

The inequitable conduct analysis consists of two steps: (1) a determination of whether the conduct meets a threshold level of materiality and intent to mislead and (2) a weighing of the materiality and intent in light of all of the circumstances to determine whether the applicant's conduct is so culpable to render the patent unenforceable. *See Purdue Pharma L.P. v. Boehringer Ingelheim GMBH*, 237 F.3d 1359, 1366 (Fed. Cir. 2001) (*Boehringer*). The predicate facts must be proven by clear and convincing evidence. *See Dayco Prods., Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1362 (Fed. Cir. 2003). A finding of inequitable conduct as

to a single claim of a patent renders all claims of that patent unenforceable, even as to those claims not tainted by the inequitable conduct. *See Pharmacia Corp. v. Par Pharmaceutical, Inc.,* 417 F.3d 1369, 1374-75 (Fed. Cir. 2005).

Information is material under the "reasonable examiner" standard — if there is a substantial likelihood that a reasonable examiner would have considered the information important in deciding whether to allow the application to issue as a patent — or under the narrower standard set forth in the amended Rule 56. *See Digital Control Inc. v. Charles Machine Works,* 437 F.3d 1309, 1314-16 (Fed. Cir. 2006) (*Digital Control*). Amended Rule 56 provides that information is "material" if:

> [I]t is not cumulative to information already of record or being made of record in the application, and
>
> (1) It establishes, by itself or in combination with other information, a *prima facie* case of unpatentability of a claim; or
>
> (2) It refutes, or is inconsistent with, a position the applicant takes in:
>
> (i) Opposing an argument of unpatentability relied upon by the Office, or
>
> (ii) Asserting an argument of patentability.

37 C.F.R. § 1.56(b)(2004). "[T]o the extent that one standard requires a higher showing of materiality than another standard, the requisite finding of intent may be lower." *Digital Control,* 437 F.3d at 1316.

The result of a PTO proceeding assessing patentability in light of information not previously disclosed can be of strong probative value in determining the materiality of the undisclosed information. *See Molins,* 48 F.3d at 1179. A PTO examiner need not rely on a misrepresentation in order for the misrepresentation to be material. *See Molins,* 48 F.3d at 1180.

Regarding the element of intent, direct evidence of intent to mislead or deceive is rare. Intent may be inferred from clear and convincing evidence of the surrounding circumstances. *See Purdue Pharma L.P. v. Endo Pharmaceuticals Inc.,* 438 F.3d 1123, 1133-34 (Fed. Cir. 2006) (*Purdue*). The surrounding circumstances include the "facts and circumstances surrounding the applicant's conduct." *Molins,* 48 F.3d at 1181. However, intent cannot be inferred solely from the fact that the material was not disclosed; instead, there must be some factual basis for finding intent to mislead or deceive. *See Purdue,* 438 F.3d at 1134.

When determining intent, the court must weigh all of the evidence, including evidence of good faith. *See Purdue,* 438 F.3d at 1134. If the materiality of the undisclosed information is relatively low, there is less basis to infer intent from materiality alone. On the other hand, if the undisclosed information is highly material, there can be an inference of the requisite intent to mislead or deceive. *See Purdue,* 438 F.3d at 1134.

"[A] breach of the duty of candor early in the prosecution may render unenforceable all claims

which eventually issue from the same or a related application." *Fox,* 922 F.2d at 804. A patent that issues from a continuation or divisional application may be held unenforceable where (1) the applicant engaged in inequitable conduct with respect to the prosecution of an earlier related application in the chain leading to the challenged patent and (2) the inequitable conduct relates to the asserted claims of that patent. *See Semiconductor Energy Lab. v. Samsung Electronics Co.,* 24 F. Supp. 2d 537, 543-44 (E.D. Va. 1998), *aff'd on other grounds* 204 F.3d 1368 (Fed. Cir. 2000) (*Semiconductor*); *eSpeed, Inc. v. Brokertec USA,* 417 F. Supp. 2d 580, 595 (D. Del. 2006) (*eSpeed*). However, the mere occurrence of inequitable conduct in connection with an application in a chain of applications is not sufficient to invalidate a patent issued as a result of a later application in that chain; instead, the earlier inequitable conduct in the chain must be related to the targeted claims of the ultimately issued patents sought to be enforced. *See Semiconductor,* 24 F. Supp. 2d at 543. Generally, mere similarity in subject matter, mere citation to the unenforceable patent, and sharing a parent application are insufficient to invalidate a patent issued from a chain of applications in which inequitable conduct has been found as to an application within that chain. *See Baxter Int'l, Inc. v. McGaw, Inc.,* 149 F.3d 1321, 1331-32 (Fed. Cir. 1998) (*Baxter*); *Hoffman-La Roche, Inc. v. Promega Corp.,* 319 F. Supp. 2d 1011, 1021-22 (N.D. Cal. 2004) (*Hoffman-La Roche*).

Inequitable conduct can be cured by an applicant by: (1) expressly advising the PTO of the

misrepresentation's existence, (2) advising the PTO of what the actual facts are and making it clear that further examination in light thereof may be required if any PTO action has been based on the misrepresentation, and (3) establishing patentability on the basis of the factually accurate record. *See Rohm & Haas Co. v. Crystal Chem. Co.*, 722 F.2d 1556, 1572 (Fed. Cir. 1983). Curing inequitable conduct cannot be made through manipulation of the patent prosecution procedures, such as amending or canceling claims or filing continuation and divisional applications. *See Semiconductor,* 24 F. Supp. 2d at 544-45.

The doctrine of unclean hands can apply where a plaintiff engages in misconduct related to a patent at issue. *See Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 245-46, 54 S. Ct. 146, 78 L. Ed. 293 (1933) (*Keystone*); *Consolidated Aluminum Corp. v. Foseco Int'l Ltd.*, 910 F.2d 804, 812 (Fed. Cir. 1990) (*Consolidated*). Under the doctrine of unclean hands, inequitable conduct can render all patent claims having an "immediate and necessary relation" to that conduct unenforceable as to a single patent or to a series of related patents. *See Keystone,* 290 U.S. at 245-46, 54 S. Ct. 146; *Consolidated,* 910 F.2d at 812.

DECISION

(1) Inequitable Conduct Based on Fiene Affidavit

Patent examiners have broad authority to request information they deem relevant to the issue of patentability. *See Ferring B.V. v. Barr Laboratories,*

Inc., 437 F.3d 1181, 1187 (Fed. Cir. 2006) (*Ferring*). "Given the *ex parte* nature of proceedings before the PTO, it is especially important that the examiner has all the information needed to determine whether and to what extent he should rely on declarations presented by the applicant." *Ferring*, 437 F.3d at 1187.

PTO examiners are specifically informed that affidavits and declarations are to be scrutinized closely and the facts weighed with care, including the affiant's or declarant's interest in the outcome of the application. *See* MPEP § 716.01(c); *Ferring*, 437 F.3d at 1187. A declarant's prior or present relationship with the patent application may be material, and failure to disclose that relationship may constitute inequitable conduct. *See Ferring*, 437 F.3d at 1187; *Refac Int'l, Ltd. v. Lotus Dev. Corp.*, 81 F.3d 1576, 1581-82 (Fed. Cir. 1996) (*Refac*); *Paragon Podiatry Lab., Inc. v. KLM Labs., Inc.*, 984 F.2d 1182, 1191-92 (Fed. Cir. 1993). A declarant's relationship with the applicant is material if: (1) the declarant's views on the underlying issue are material and (2) the relationship to the applicant is significant. *Ferring*, 437 F.3d at 1188. Generally, "[a]ffidavits are inherently material"; and the "affirmative act of submitting an affidavit must be construed as being intended to be relied upon." *Refac*, 81 F.3d at 1583.

The question of intent is directed at the applicant's intent, not the intent of the declarant. *See Ferring*, 437 F.3d at 1191. Multiple omissions of past relationships heighten the seriousness of the conduct. *See Ferring*, 437 F.3d at 1194.

Nilssen knowingly submitted Fiene's affidavits in response to the PTO's reexamination of the '345 Patent in an attempt to address the examiner's rejection of certain claims. Nilssen knowingly submitted Fiene's affidavit when addressing the PTO's rejection of claims within the '690 Patent application. Fiene's declarations in the affidavit were highly material to the reexamination of the '345 Patent, and a reasonable patent examiner would have considered the information important. Fiene's declarations in the affidavit were highly material to the '690 Patent application, and a reasonable patent examiner would have considered the information important. Nilssen and Fiene had a significant relationship—personal, professional, and financial—when the affidavits were prepared and submitted. On more than one occasion, Nilssen knowingly failed to inform the PTO of this significant relationship and took active steps to conceal that relationship, *i.e.,* removing his history of employment at Fyrnetics, which could have linked Nilssen and Fiene. Nilssen's testimony to the contrary was not credible, and the evidence showed that Nilssen intended to mislead the PTO.[8] The level of materiality and Nilssen's intent in light of all of the circumstances

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[8] Nilssen originally argued at trial that the Nilssen/Fiene relationship was readily apparent to the PTO based on the inclusion with the affidavit of Fiene's telephone number because the last digit is only two numbers away from Nilssen's telephone number (phone numbers with the same prefix ending in 5617 and 5615), which was also disclosed in the same filing. It was later developed at trial that Fiene's and Nilssen's phone numbers appeared in these papers sixteen pages apart. Nilssen has apparently abandoned this argument.

establish that Nilssen engaged in inequitable conduct during the '345 Patent reexamination and '690 Patent application by clear and convincing evidence to render the patents unenforceable.

However, the '345 Patent is no longer at issue in this case. Osram seeks to have the '270 and '681 Patents, which are still at issue, invalidated under the doctrine of infectious unenforceability, arguing that the reference to the '345 Patent in the description of prior art in the '270 and '681 Patents is sufficiently related to render the '270 and '681 Patent unenforceable. In support of its argument, Osram argues that Nilssen's proposed standard of "immediate and necessary relation" required for infectious unenforceability has not been adopted by the Federal Circuit. However, while the "immediate and necessary relation" standard has not been "adopted" by the Federal Circuit for purposes of infectious unenforceability, because it has not decided the issue, the Federal Circuit has referred to that standard. *See Consolidated Aluminum Corp. v. Foseco Intl' Ltd.,* 910 F.2d 804, 810-11 (Fed. Cir. 1990). Furthermore, the Federal Circuit has specifically held that "where claims are subsequently separated from those tainted by inequitable conduct through a divisional application, and where the issued claims have no relation to the omitted prior art, the patent issued from the divisional application will not also be unenforceable due to inequitable conduct committed in the parent application." *Baxter,* 149 F.3d at 1332.

Here, the application that issued as the '345 Patent was a divisional application,[9] and the primary relationship Osram identifies between the '345 and the '270 and '681 Patents is the reference of the '345 Patent in those patents and sharing a common parent application. The mere reference to the '345 Patent in the description of prior art in the '270 and '681 Patents and the sharing of a common parent application and applicant does not demonstrate sufficient relatedness to the '345 Patent to render the '270 or '681 Patents unenforceable under the doctrine of infectious unenforceability. *See Baxter,* 149 F.3d at 1331-32; *Hoffman-La Roche,* 319 F. Supp. 2d at 1021-22.

(2) Inequitable Conduct Based on Small Entity Status Claims and Fees

As noted above, a patentee is required to pay an initial issue fee and subsequent maintenance fees every four years for the term of the patent to prevent expiration of the patent. 35 U.S.C. § 41. Following increases in these fees, Congress — concerned that the increased fees would be overly burdensome to individuals, non-for-profit organizations, and small businesses — provided a discount in the amount of fees for these "small entities." *See Ulead Sys., Inc. v. Lex Computer & Mgt. Corp.,* 351 F.3d 1139, 1142 (Fed. Cir. 2003) (*Ulead*).

A small entity is defined as "an independent inventor, a small business concern, or a nonprofit

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[9] This term is discussed more fully later in this Opinion and Order.

organization." 37 C.F.R. § 1.27(a). An "independent inventor" is defined as:

> any inventor who (1) has not assigned, granted, conveyed, or licensed, and (2) is under no obligation under contract or law to assign, grant convey, or license, any rights in the invention to any person who could not otherwise be classified as an independent inventor if that person had made the invention, or to any concern which would not qualify as a small business concern or a nonprofit organization under this section.

37 C.F.R. § 1.27(a)(1).

A "small business concern" is defined as:

> one whose number of employees, including those of its affiliates, does not exceed 500 persons and which has not assigned, granted, conveyed, or licensed, and is under no obligation under contract or law to assign, grant, convey, license, any rights in the invention to any person who could be classified as an independent inventor if that person had made the invention, or to any concern which would not qualify as a small business concern or a nonprofit organization under this section.

37 C.F.R. § 1.9(d).

A "nonprofit organization," up until August 2001, was defined, in pertinent part, as:

> (2) an organization of the type described in Section 501(c)(3) of the Internal Revenue Code of 1954 (26 U.S.C. 501(c)(3)) and exempt from

> taxation under section 510(a) of the Internal Revenue Code (26 U.S.C. 501(a)); (3) any nonprofit scientific or educational organization qualified under a nonprofit organization statute of a state in this country (35 U.S.C. 201(j)); or (4) any nonprofit organization under paragraphs (e)(2) or (3) of those sections if it were located in this country.

37 C.F.R. § 127(a)(3).

In August 2001, the definition of a nonprofit organization, in pertinent part, was amended to:

> any nonprofit organization that: (i) Has not assigned, granted, conveyed, or licensed, and is under no obligation under contract or law to assign, grant, convey, or license, any rights in the invention to any person, concern, or organization which would not qualify as a person, small business concern, or a nonprofit organization; and (ii) Is either: (A) A university or other institution of higher education located in any country; (B) An organization of the type described in section 501(c)(3) of the Internal Revenue Code...; (C) Any nonprofit scientific or educational organization qualified under a nonprofit organization statute of a state of this country (35 U.S.C. 201(i)); or (D) Any nonprofit organization located in a foreign country which would qualify as a nonprofit organization under paragraphs (a)(3)(ii)(B) of this section or (a)(3)(ii)(c) of this section if it were located in this country.

37 C.F.R. § 1.27(a)(3). Any party making an assertion of small entity status must make a declaration claiming small entity status. *See* 37 C.F.R. § 1.27(c); MPEP § 509.03; MPEP § 2250.

False declarations and improper fee payments may constitute inequitable conduct. *See Ulead,* 351 F.3d at 1145-46. A false declaration of small entity status is material as a matter of law because the PTO's acceptance of a declaration and the resulting reduced fees is material to the survival of the patent. *See Ulead,* 351 F.3d at 1146. In addition, Section 1.28(c) allows a patentee to correct an error in making a small entity payment if the status as a small entity is established in good faith and the fees as a small entity are paid in good faith. *See* 37 C.F.R. § 1.28(c). While the PTO is not required to make an inquiry into whether the patentee has established good faith as a condition of accepting a late payment, if a patentee seeks to correct an incorrect payment of fees as a small entity pursuant to Section 1.28(c) without good faith, the patentee may be found to have engaged in inequitable conduct. *See Ulead,* 351 F.3d at 1149-50.

Effective December 7, 1995, Nilssen entered into the CFL Agreement; at which time Nilssen was not entitled to, but did, claim small entity status and paid small entity maintenance fees as to the '806, '637, '270, 123, '680, and '681 Patents. Effective January 1, 1996, Nilssen entered into a Patent License Agreement with Philips; at which time Nilssen was not entitled to, but did, claim small entity status and paid small entity maintenance fees as to the '806, '637, '043, '386, '409, '074, '160, '680,

and '681 Patents. From December 1995 to the time of trial, Nilssen made at least twenty-seven improper payments to the PTO in both the eleven patents in suit and nine patents Nilssen withdrew from the case. In this same time frame, Nilssen submitted at least fifteen declarations to the PTO claiming small entity status, including eight patents in suit and seven withdrawn patents.

Nilssen acted with intent to mislead in declaring small entity status and in making small entity payments. Nilssen made multiple false declarations and small entity payments over several years. Nilssen's testimony as to why he believed he was entitled to small entity declarations and payments was not credible. Nilssen, a self-proclaimed expert in patent prosecution, had years of experience prosecuting and maintaining his patents. Nilssen regularly completed the required forms affirmatively declaring his status as a small entity. These forms, entitled "Verified Statement (Declaration) Claiming Small Entity Status," were signed by Nilssen under oath. The "Verified Statement" put Nilssen on notice of the specific C.F.R. provisions governing small entity status.

Nilssen's assertion that he did not read the applicable C.F.R. provisions is not credible. The evidence showed that Nilssen was knowledgeable of and understood patent law and the MPEP during the prosecution of his patents. During his testimony, Nilssen also admitted that he read the MPEP section that incorporated the very C.F.R. provisions at issue. Nilssen, unconvincingly, testified during the trial that his actions this regard should be excused and

that he erred in good faith because he did not understand certain regulations.

Nilssen also asserted that he "justifiably believed he could make small entity payments on any patents licensed to Geo" because the MPEP prior to August 2001 "implied" that Nilssen was entitled to pay small entity fees for all such patents. This version specifically stated, under the heading "Transfer of Rights" the following:

> The payment of reduced fees under 35 U.S.C. 41 is limited to those situations in which all rights in the invention are owned by small entities . . . To do so otherwise would be clearly contrary to the intended purpose of the legislation which contains no indication that fees are to be reduced in circumstances where rights are owned by non-small entities.

Nilssen claims, as evidence of his perceived ambiguity of this section, the August 2001 amendment now makes it clear that he was required to make large entity payments; however, he asserts he was unaware of the amendment until recently. Nilssen's testimony that he was knowledgeable of a specific provision in the MPEP (the pre-August 2001 version), which permitted him to draw an interpretation of the law he believes is favorable to him, but ignorant of the August 2001 amendment is not credible. Moreover, his unbelievable explanation belies his assertion that his improper small entity claims were the result of a good faith mistake. Essentially, Nilssen is claiming that he ceased being informed on the requirements to qualify for small

entity fees at a time when, coincidentally, the law was changed to his apparent detriment.[10]

Nilssen's unconvincing reliance on the GEO Foundation to excuse his declarations and small entity payments is also unavailing.[11] As discussed above, Nilssen was required to pay large entity fees for all patents licensed to the Geo Foundation because the Geo Foundation itself licensed the patents to large entities. Furthermore, the Geo Foundation's lack of any charitable activity, as well as its announced goals and mission statement, set by Nilssen himself, demonstrates that the Geo Foundation could not properly be classified as a non-for-profit corporation.

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[10] *See* MPEP § 2550 ("37 C.F.R. 1.366(f) serves as a reminder to patentees of the necessity to check for the loss of small entity status prior to paying each maintenance fee on a patent. This is also a requirement of 37 C.F.R. 1.28(b). The notification of any change in status resulting in loss of entitlement to small entity status must be filed in a patent prior to paying, or at the time of paying, the earliest maintenance fee due after the date on which status as a small entity is no longer appropriate.").

[11] At trial, Nilssen argued that he was merely relying on his advice of counsel in believing that the GEO Foundation was a non-for-profit organization, relieving Nilssen from paying large entity fees. Nilssen did not present this defense until the time of trial and withheld discovery from his counsel based on attorney-client privilege. Furthermore, Nilssen's counsel's opinions as to the Geo Foundation's non-for-profit status were formed from the information provided by Nilssen. For example, Nilssen's counsel wrongly assumed that Nilssen was not part of the Geo Foundation's formation and that the Geo Foundation had engaged in charitable activities.

Lastly, Nilssen's argument that he would not have intentionally paid small entity fees because the amount of money he was saving was too small relative to what he might lose if his patents were declared unenforceable is without merit.[12] However, considering only the portion of Nilssen's portfolio licensed to Philips, Nilssen would owe in excess of $200,000 in underpayments, a significant amount of money. Nilssen also admittedly opposes government fees, taxes, and the present legal system which, further demonstrates an incentive to avoid payment.

Based on clear and convincing evidence, in light of the materiality and considering the totality of circumstances supporting Nilssen's obvious intent to mislead, Nilssen's declarations of small entity status and small entity payments render Nilssen's repeated misconduct so culpable as to render the patents at issue unenforceable.

(3) Inequitable Conduct Based on Priority Misclaims

False statements regarding an application priority date may constitute inequitable conduct. *See Li Second Family L.P. v. Toshiba Corp.*, 231 F.3d 1373, 1378-79 (Fed. Cir. 2000) (*Li*); *KangaROOS*

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[12] People are dishonest and break the law even when small amounts of money are at stake. *See DaimlerChrysler AG v. Feuling Advanced Techs., Inc.*, 276 F. Supp. 2d 1054, 1062 (S.D. Cal. 2003) ("Why [patentee] and his agents would put the enforceability of patents licensed for millions of dollars at risk to save a few thousand dollars in PTO fees is beyond reason. Yet, the evidence overwhelmingly supports the inference that they did so, and common experience confirms that the world has no shortage of individuals who commit irrational and self-destructive acts.").

U.S.A., Inc. v. Caldor, Inc., 778 F.2d 1571, 1575-76 (Fed. Cir. 1985) (*KangaROOS*). "Because the effective filing date of each claim in a patent application determines which references are available as prior art for purposes of §§ 102 and 103, information regarding the effective date is of the utmost importance to an examiner. Consequently, an applicant's misrepresentation that he is entitled to the benefit of an earlier filing date is highly material." *Li*, 231 F.3d at 1379-80 (inequitable conduct where applicant made affirmative assertions of an effective filing date without informing the PTO that the Examiner and Board of Appeals had rejected the same arguments that had been made earlier with respect to the prosecution of an earlier patent). Inequitable conduct has not been found by merely "claiming priority to an earlier patent where the specifications, but not the claims, of the later patents are supported by the earlier patent." *Boehringer*, 237 F.3d at 1367 (finding no inequitable conduct by applicant that incorrectly claimed priority to an earlier patent but did not actively mislead the examiner).

For the period ending August 2001, 35 U.S.C. § 120 provided:

> An application for patent for an invention disclosed in the manner provided by the first paragraph of section 112 of this title in an application previously filed in the United States, or as provided by section 363 of this title, by the same inventor shall have the same effect, as to such invention, as though filed on the date of the prior application, if files [sic]

> before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application and if it contains or is amended to contain specific reference to the earlier filed application.

35 U.S.C. § 120.

Beginning August 2001, 35 U.S.C. § 120 states:

> An application for patent for an invention disclosed in the manner provided by the first paragraph of section 112 of this title in an application previously filed in the United States, or as provided by section 363 of this title, which is filed by an inventor or inventors named in the previously filed application shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application and if it contains or is amended to contain a specific reference to the earlier filed application. No application shall be entitled to the benefit of an earlier filed application under this section unless an amendment containing the specific reference to the earlier filed application is submitted at such time during the pendency of the application as required by the Director. The Director may consider the failure to submit

> such an amendment within that time period as a waiver of any benefit under this section. The Director may establish procedures, including the payment of a surcharge, to accept an unintentionally delayed submission of an amendment under this section.

35 U.S.C. § 120.

Four conditions exist to receive the benefit of an earlier filing date under Section 120:

> (1) The second application (which is called a continuing application) must be an application for a patent for an invention which is also disclosed in the first application (the parent or original application); the disclosure of the invention in the first application and in the second application must be sufficient to comply with the requirements of the first paragraph of 35 U.S.C. 112.... (2) The continuing application must be copending with the first application or with an application similarly entitled to the benefit of the filing date of the first application. (3) The continuing application must contain a specific reference to the prior application(s) in the specification . . . (4) The continuing application must be 'filed by the same inventor' as in the prior application . . . .

MPEP § 210.11.

"Copendency is defined in the clause that requires that the second application must be filed before (a) the patenting, or (b) the abandonment of, or (c) the

termination of proceedings in the first application. MPEP § 201.11." "If the first application is abandoned, the second application must be filed before the abandonment in order for it to be copending with the first." MPEP § 201.11. "Abandonment" refers to "express abandonment." MPEP § 201.11. The specific reference to the first application, which is required by the third requirement, "should appear as the first sentence of the specification following the title preferably as a separate paragraph (37 C.F.R. 1.78(a))." MPEP § 201.11.

"A continuation is a second application for the same invention claimed in a prior application and filed before the original becomes abandoned." MPEP § 201.07. "A continuation-in-part is an application filed during the lifetime of an earlier application by the same applicant, repeating some substantial portion or all of the earlier application and adding subject matter not disclosed in the said earlier case." MPEP § 201.08. Section 201.11 of the MPEP provides:

> Any claim in a continuation-in-part application which is directed solely to the subject matter adequately disclosed under 35 U.S.C. 112 in the parent application is entitled to the benefit of the filing date of the parent application. However, if a claim in a continuation-in-part application recites a feature which is not disclosed or adequately supported by a proper disclosure under Section 35 U.S.C. 112 in the parent application, but which was first introduced or

> adequately supported in the continuation-in-part application, such a claim is entitled to the filing date of the continuation-in-part application.

MPEP § 201.08, *citing In re Van Langenhoven,* 59 C.C.P.A. 934, 458 F.2d 132, at 136, 173 USPQ 426 at 429 (1972) and *Chromalloy American Corp. v. Alloy Surfaces Co., Inc.,* 339 F. Supp. 859, 874, 173 USPQ 295 at 306 (D. Del. 1972).

Section 201.11 of the MPEP provides, in pertinent part:

> A claim in a subsequently filed application that relies on a combination of prior applications may not be entitled to the benefit of an earlier filing date under 35 U.S.C. 120 since 35 U.S.C. 120 requires that the earlier filed application contain a disclosure which complies with 25 U.S.C. 112, first paragraph for each claim in the subsequently filed application.

MPEP § 201.11, *citing Studiengesellschaft Kohle M.B.H. v. Shell Oil Co.,* 112 F.3d 1561, 1564, 42 USPQ2d 1674 (Fed. Cir. 1997).

A divisional application is a "later application for a distinct or independent invention, carved out of a pending application and disclosing and claiming only subject matter disclosed in the earlier application or parent application." MPEP § 201.06(a). A file wrapper continuation is a "continuation, continuation-in-part, or divisional application which uses the specification and drawings from a prior

application to be abandoned [and] filed before the payment of the issue fee, abandonment of, or termination of proceedings on a prior claim...." MPEP 201.06(b). The filing of a request for a continuing application pursuant to the file wrapper continuing procedure is "considered to be a request to expressly abandon the prior application as of the filing date granted the continuing application." MPEP § 201.06(b). "Use of the FWC procedure will automatically result in express abandonment of the prior application as of the filing date accorded the continuation, continuation-in-part, or divisional application." MPEP § 201.06(b). Further, the "filing of a request for a continuing application under 37 C.F.R. 1.62(g) is considered to be a request to expressly abandon the prior application as of the filing date granted the continuing application." MPEP § 201 § 711.01.

Nilssen's claim of priority to the effective date of March 20, 1978, in the '409, '160, '386, and '043 Patents were false because the copendency and cross-reference requirements were not satisfied. Likewise, Nilssen's claim of priority to the effective date of March 20, 1978, in the '637, '680, and '681 Patents were false because the cross-reference requirement was not satisfied.

These false claims of priority dates were highly material because they allowed Nilssen to potentially avoid prior art and obtain patent claims to which he would not otherwise be entitled. *See Li,* 231 F.3d at 1379-80.

Furthermore, Nilssen intended to mislead the PTO by incorrectly claiming priority dates. The '409, '160, '386, and '043 Patents are all children of the '342 Patent. From 1984 to 1992, the '342 Patent and its parent applications did not claim priority to any patents or parent applications before October 5, 1984. On February 22, 1993, Nilssen filed Application No. 08/020,696 as a continuation of the '342 Patent application. However, this time, Nilssen claimed priority back to March 20, 1978. Just days before this new claim of priority, on February 18, 1993, Nilssen sent a letter to his licensee, Advance Transformer Co., disclosing his intent to obtain patent protection on the "Epsilon Project." In the letter, Nilssen stated:

> A patent application aimed at attaining patent protection for various features of the initial Epsi-type Electronic Ballast has been prepared and will be filed shortly. This patent application will be a Continuation-In-Part of currently pending patent application Serial No. 07/840,52[8] filed 02/25/92.
>
> Since many of the constituent parts of the Epsi-type Inverter/Ballast design may be considered as representing known art, it may not be possible to attain effective basic patent protection on all the important features of the Epsi-type Electronic Ballast.

The Application No. 07/840,528, referred to in the letter, is the same application that issued as the '342 Patent.

As indicated in his letter to Advance, Nilssen filed Application No. 08/020,696 (whose file wrapper continuation issued as the '160 Patent) four days later as a continuation-in-part of Application No. 07/840,528. Unlike Application No. 07/840,528, and all other preceding applications, Nilssen claimed priority back to 1978. The priority misclaims in the '409, '160, '386, and '043 Patents all followed. The Advance letter demonstrates that Nilssen intentionally misclaimed priority in these patents to avoid known prior art and to obtain "effective basic patent protection." Nilssen's testimony to the contrary was unpersuasive.

Nilssen engaged in similar conduct as to the '637, '680, and '681 Patents. These patents are all children of Application No. 06/787,692. Between August 1980 and July 1991, Application No. 06/787,692 and all its preceding applications claimed priority to dates no earlier than August 14, 1980. On August 9, 1991, Nilssen filed Application No. 07/743,216, issuing as the '637 Patent, and, for the first time, claimed priority back to March 18, 1978. The priority misclaims in the '680 and '681 Patents followed.

Again, shortly before the new priority claim date, on March 6, 1991, Nilssen sent a letter to Advance regarding the "Omega Ballast." Nilssen wrote, in pertinent part:

> However, I also mentioned to you that I may not be able to attain effective patent coverage on the Omega Ballast; which presents me with a dilemma.

> This dilemma relates to the fact that Advance is free to cancel its License Agreement with me at any time after June 30, 1993. Thus, if it should turn out that the Omega Ballast were to lack effective patent protection, I would have to recognize that Advance might indeed cancel its License Agreement with me while proceeding to make and sell the Omega Ballast.

The priority misclaims in the '637, '680, and '681 Patents all followed. This Advance letter demonstrates that Nilssen intentionally misclaimed priority in these patents to claim an earlier effective date to assure that Advance could not cancel its License Agreement. Nilssen's testimony to the contrary was not credible.

Based on clear and convincing evidence, in light of the materiality and the totality of circumstances as to Nilssen's intent to mislead, Nilssen's false claims of priority dates render Nilssen's repeated misconduct so culpable as to render the '409, '160, '386, '043, '637, '680, and '681 Patents unenforceable.

(4) Inequitable Conduct Based on Failure to Disclose Litigation

Section 2001.06(c) of the MPEP provides:

> Where the subject matter for which a patent is being sought is, or has been involved in litigation, the existence of such litigation and any other material information arising therefrom must be brought to the attention of the Patent and Trademark Office; such as, for

> example, evidence of possible prior public use or sales, questions of inventorship, prior art, allegations of 'fraud', inequitable conduct' or violation of duty of disclosure. Such information might arise during litigation in, for example, pleadings, admissions, discovery including interrogatories, depositions, and other documents, and testimony.

MPEP § 2001.06(c). Failure to disclose related litigation may constitute inequitable conduct. *See Critikon, Inc. v. Becton Dickinson Vascular Access,* 120 F.3d 1253, 1255 (Fed. Cir. 1997) (*Critikon*); *Nisus Corp. v. Perma-Chink Sys., Inc.* 421 F. Supp. 2d 1084, 1104 (E.D. Tenn. 2006) (*Nisus*). "'Related litigation' is *per se* material information covered by the duty of disclosure." *Nisus,* 421 F. Supp. 2d at 1104. "It is axiomatic that '[c]lose cases should be resolved by disclosure, not unilaterally by applicant.'" *Critikon,* 120 F.3d at 1257, *quoting LaBounty Mfg., Inc. v. United States Int'l Trade Comm'n,* 958 F.2d 1066 (Fed. Cir. 1992).

Ongoing litigation is material if the patent involved in the litigation shares the same specification and discloses the same subject matter as the pending patent. Materiality of ongoing litigation is "obvious" if it challenged the validity and enforceability of the subject matter of the pending application. *See ICU Medical, Inc. v. B. Braun Medical, Inc.,* 2005 WL 588341 at *15 (N.D. Ill. March 14, 2005). When addressing "intent" for failing to disclose related litigation, the Federal Circuit has held:

> No single factor or combination of factors can be said always to require an inference of intent to mislead; yet a patentee facing a high level of materiality and clear proof that it knew or should have known of that materiality, can expect to find it difficult to establish 'subjective good faith' sufficient to prevent the drawing of an inference of intent to mislead. A mere denial of intent to mislead (which would defeat every effort to establish inequitable conduct) will not suffice in such circumstances.

Critikon, 120 F.3d at 1257.

The '123, '043, '386, '409, '074, '160, '680, and '681 Patents disclose the same subject matter as the patents asserted by Nilssen in the Motorola litigation. Nilssen was aware of the pending Motorola litigation during the prosecution of the '123, '043, '386, '409, '074, '160, '680, and '681 Patents. Nilssen's failure to disclose the Motorola litigation was highly material to the prosecution of the applications that issued as the '123, '043, '386, '409, '074, '160, '680, and '681 Patents. Nilssen's testimony that he was unaware of a duty to disclose the Motorola litigation was not credible. Nilssen intended to mislead the PTO by failing to disclose the ongoing Motorola litigation and did not do so in good faith. Based on clear and convincing evidence, in light of the materiality and considering the totality of circumstances reflecting Nilssen's intent to mislead, Nilssen's failure to disclose the pending Motorola litigation is so culpable as to render the

'123, '043, '386, '409, '074, '160, '680, and '681 Patents unenforceable.

(5) Inequitable Conduct Based on Failure to Disclose Prior Art

Inequitable conduct can arise from the failure to disclose prior art. *See Molins,* 48 F.3d at 1178. To prevail on a charge of inequitable conduct for failure to disclose prior art, the defendant must demonstrate "materiality of the prior art, knowledge chargeable to the applicant of that prior art and of its materiality, and the applicant's failure to disclose the prior art, coupled with an intent to mislead." *Molins,* 48 F.3d at 1178. A reference may be material even though the claims of an application are patentable over that reference. *See Molins,* 48 F.3d at 1179.

The Stolz Patent constitutes prior art to the '681 and '067 Patents. The Stolz Patent was highly material to the '681 and '067 Patents. Nilssen had knowledge of the Stolz Patent and of its materiality. Nilssen failed to disclose the Stolz Patent with the intent to mislead the PTO; and, when he failed to do so, he was not acting in good faith. Nilssen's testimony to the contrary was not credible. In light of the materiality and considering the totality of the circumstances as to Nilssen's intent to mislead, Nilssen's failure to disclose the Stolz Patent constitutes inequitable conduct and conduct of a degree to render the '681 and '067 Patents unenforceable.

The Pitel, Nilssen and Kornrumpf Patents constitute prior art to the '043 Patent, The Pitel, Nilssen and Kornrumpf Patents were highly

material to the '043 Patent. Nilssen had knowledge of the Pitel, Nilssen and Kornrumpf Patents and of their materiality. Nilssen failed to disclose the Pitel, Nilssen and Kornrumpf Patents with the intent to mislead the PTO; and, when he failed to do so, he was not acting in good faith. Nilssen's testimony to the contrary was not credible. In light of the materiality and considering the totality of the circumstances as to Nilssen's intent to mislead, Nilssen's failure to disclose the Pitel, Nilssen and Kornrumpf Patents constitutes inequitable conduct of a degree to render the '043 Patent unenforceable.

The Franke Patent constitutes prior art to the '806 Patent. The Franke Patent was highly material to the '806 Patent. Nilssen had knowledge of the Franke Patent and of its materiality. Nilssen failed to disclose the Franke Patent with the intent to mislead the PTO; and, when he failed to do so, he was not acting in good faith. Nilssen's testimony to the contrary was not credible. In light of the materiality and considering the totality of the circumstances as to Nilssen's intent to mislead, Nilssen's failure to disclose the Franke Patent constitutes inequitable conduct of a degree to render the '806 Patent unenforceable.

The Zansky Patent constitutes prior art to the '342 Patent. The Zansky Patent was highly material to the '342 Patent. Nilssen had knowledge of the Zansky Patent and of its materiality. Nilssen failed to disclose the Zansky Patent with the intent to mislead the PTO; and, when he failed to do so, he was not acting in good faith. Nilssen's testimony to the contrary was not credible. Based on clear and

convincing evidence, in light of the materiality and considering the totality of the circumstances as to Nilssen's intent to mislead, Nilssen's failure to disclose the Zansky Patent constitutes inequitable conduct to a degree to render the '342 Patent unenforceable.

However, the descendant relationship of the '123, '409, '160, '386, and '043 Patents to the '342 Patent and the common drawings among them does not demonstrate sufficient relatedness to the '342 Patent to render the '123, '409, '160, '386, and '043 Patents unenforceable under the doctrine of infectious unenforceability. Mere similarity in subject matter and sharing a parent application are insufficient to invalidate a patent issued from a chain of applications in which inequitable conduct has been found as to an application within that chain. *See Baxter,* 149 F.3d at 1331-32; *Hoffman-La Roche,* 319 F. Supp. 2d at 1021-22.

(6) Unclean Hands

Lastly, Defendants seek to have each of the related patents in suit held unenforceable under the doctrine of unclean hands based on the inequitable conduct that directly renders the patents in suit unenforceable. While the above findings demonstrate that Nilssen engaged in a pattern of inequitable conduct over an extended period of time, Defendants have not demonstrated by clear and convincing evidence that the inequitable conduct engaged in by Nilssen that directly renders certain patents unenforceable had an immediate and necessary relation to other related patents to render

the other patents unenforceable under the doctrine of unclean hands. *See Baxter,* 149 F.3d at 1331-32; *Hoffman-La Roche,* 319 F. Supp. 2d at 1021-22.

CONCLUSION

For the foregoing reasons, Defendants have demonstrated, by clear and convincing evidence, that Nilssen engaged in inequitable conduct and that such conduct renders the remaining eleven patents at issue unenforceable. Judgment is entered in favor of Defendants and against Plaintiffs.

Appendix C

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

No. 2006-1550.

OLE K. NILSSEN
and GEO FOUNDATION, LTD.,

Plaintiffs-Appellants,

v.

OSRAM SYLVANIA, INC.
and OSRAM SYLVANIA PRODUCTS, INC.,

Defendants-Appellees.

ORDER

A petition for rehearing en banc having been filed by the Appellants, and a response thereto having been invited by the court and filed by the Appellees, and the matter having first been referred as a petition for rehearing to the panel that heard the appeal, and thereafter the petition for rehearing en banc and response having been referred to the circuit judges who are in regular active service.

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on January 23, 2008.

Circuit Judge Gajarsa did not participate in the vote.

FOR THE COURT,

Jan Horbaly
Clerk

Dated: 01/16/2008

Appendix D

CODE OF FEDERAL REGULATIONS
Title 37—Patents, Trademarks, and Copyrights
Chapter 1—United States Patent and Trademark Office, Department of Commerce
Subchapter A—General
Part 1—Rules of Practice in Patent Cases
Subpart B—National Processing Provisions
The Application

§ 1.56 Duty to disclose information material to patentability.

(a) A patent by its very nature is affected with a public interest. The public interest is best served, and the most effective patent examination occurs when, at the time an application is being examined, the Office is aware of and evaluates the teachings of all information material to patentability. Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability as defined in this section. The duty to disclose information exists with respect to each pending claim until the claim is cancelled or withdrawn from consideration, or the application becomes abandoned. Information material to the patentability of a claim that is cancelled or withdrawn from consideration need not be submitted if the information is not material to the patentability of any claim remaining under consideration in the application. There is no

duty to submit information which is not material to the patentability of any existing claim. The duty to disclose all information known to be material to patentability is deemed to be satisfied if all information known to be material to patentability of any claim issued in a patent was cited by the Office or submitted to the Office in the manner prescribed by §§ 1.97(b)-(d) and 1.98. However, no patent will be granted on an application in connection with which fraud on the Office was practiced or attempted or the duty of disclosure was violated through bad faith or intentional misconduct. The Office encourages applicants to carefully examine:

(1) Prior art cited in search reports of a foreign patent office in a counterpart application, and

(2) The closest information over which individuals associated with the filing or prosecution of a patent application believe any pending claim patentably defines, to make sure that any material information contained therein is disclosed to the Office.

(b) Under this section, information is material to patentability when it is not cumulative to information already of record or being made of record in the application, and

(1) It establishes, by itself or in combination with other information, a *prima facie* case of unpatentability of a claim; or

(2) It refutes, or is inconsistent with, a position the applicant takes in:

(i) Opposing an argument of unpatentability relied on by the Office, or

(ii) Asserting an argument of patentability.

A *prima facie* case of unpatentability is established when the information compels a conclusion that a claim is unpatentable under the preponderance of evidence, burden-of-proof standard, giving each term in the claim its broadest reasonable construction consistent with the specification, and before any consideration is given to evidence which may be submitted in an attempt to establish a contrary conclusion of patentability.

(c) Individuals associated with the filing or prosecution of a patent application within the meaning of this section are:

(1) Each inventor named in the application;

(2) Each attorney or agent who prepares or prosecutes the application; and

(3) Every other person who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application.

(d) Individuals other than the attorney, agent or inventor may comply with this section by disclosing information to the attorney, agent, or inventor.

(e) In any continuation-in-part application, the duty under this section includes the duty to disclose to the Office all information known to the person to be material to patenta' ility, as defined in paragraph (b) of this section, which became available between the filing date of the prior application and the

national or PCT international filing date of the continuation-in-part application.

[57 FR 2034, Jan. 17, 1992, as amended at 65 FR 54666, September 8, 2000].